
Subject: Niagara Region Incentives Policy

Report to: Committee of the Whole

Report date: Thursday, August 5, 2021

Recommendations

1. That the Niagara Region Incentives Policy (Appendix 1 of Report PDS 31-2021) **BE APPROVED**; and
2. That Report PDS 31-2021 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The purpose of this report is to present a Niagara Region Incentives Policy which outlines Regional incentive programs aligned into the four Priority Areas identified by Council.
- In 2018, Regional Council endorsed the review of Regional incentive programs with the goals of having incentives align with Regional priorities and responsibilities, address current and future needs, provide meaningful and measurable results, and be sustainable, clear and accountable.
- In 2019, Council further directed staff to align Regional incentives into four priority areas: Affordable Housing, Employment, Brownfield Remediation, and Public Realm.
- The Regional incentive review has included both process and value-for-money audits of incentive programs; public, stakeholder and local municipal partner engagement; and research into comparator programs and best practices. An interdepartmental team of Regional staff has worked to align Regional incentives into the priority areas and provide recommendations for program and administrative improvements.
- The proposed Niagara Region Incentives Policy (Appendix 1) updates, aligns and consolidates the majority of Regional incentives in a single document, providing greater clarity, consistency and flexibility.

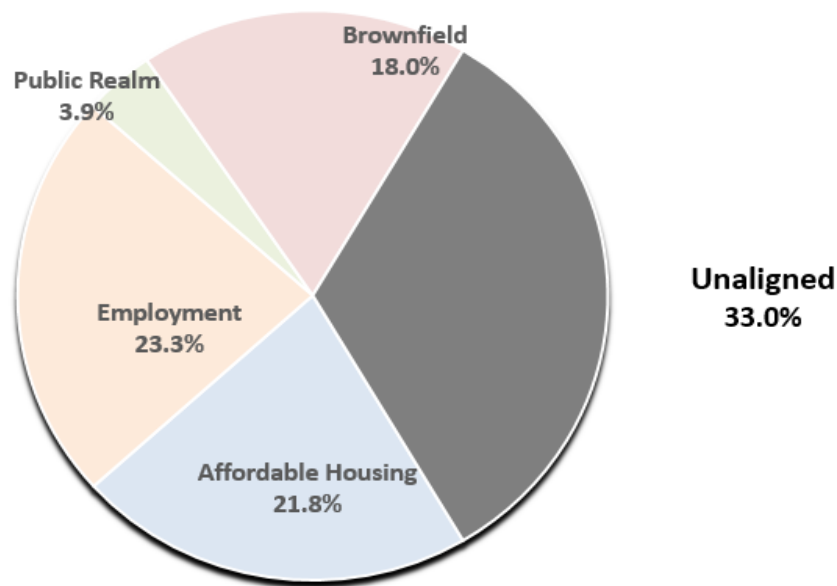
- If approved, it is recommended that the newly aligned incentive programs be implemented January 1, 2022, with the exception of incentive programs existing under the current Regional Development Charges Bylaw (98-2017), which will remain in effect until the expiration of that Bylaw on August 31, 2022.
- Additional improvements to incentive delivery include updating and expanding Regional incentive information online; instituting a one-window approach for applicants; improving collection of data and metrics; coordinating incentive reporting; and providing for regular incentive policy and procedure review.

Financial Considerations

Funding for Regional incentives will be addressed through the 2022 budget process. Though funding may be targeted differently, this review is not resulting in a request for an increase in total incentive funding levels in 2022. The 2022 budget will include a request to fund existing tax increment grant commitments through growth in alignment with the budget planning bylaw, and may require consideration of additional budget to address current Regional Development Charge (RDC) Bylaw grants including grants in 2017 brownfield transition agreements. A full leadership review of the staffing requirements to support grants and incentives is pending council endorsement of this report and a detailed review of individual program administration (occurring fall 2021). It is anticipated program support will be achieved through repurposing of existing roles and funding.

Incentives represent the largest discretionary item in the Niagara Region budget. As the KPMG Service Sustainability Review report notes, the other remaining discretionary programs in the Region's budget relate to community grants such hospital funding and Canada Summer Games, as well as Community Services grants and discretionary spending for social assistance grants and child care services. In 2021, Regional incentive spending was approximately \$14 million. The chart below illustrates Regional incentive spending in the 2021 budget.

Chart 1: Regional Incentive Spending by Priority Area in the 2021 Budget



Approximately 33% of current Regional incentive funding is not aligned in one of the four Priority Areas identified by Council. Furthermore, approximately one-third of the Region's incentive spending currently funds legacy commitments, such as tax increment grants and RDC grants. Spending for legacy commitments under existing programs is slated to increase in the next few years as grants which have Regional funding committed, particularly tax increment grants or grants provided under the RDC Bylaw expiring September 2022, are frequently not paid out until project completion several years after approval. The current suite of incentive programs are forecasted to create financial pressures in the coming years.

- Costs for Regional tax increment grant commitments will double 2019 levels over the next 5-7 years.
- There is an estimated \$17 million shortfall in the 2022 RDC grant budget as a result of legacy commitments through expiring programs and RDC transition agreements under the 2017 RDC by-law (see Appendix 3).

The recommendations of the incentive review would align Regional incentive spending into the four Priority Areas, ensuring investments drive the policy outcomes Council is trying to achieve. No increase in incentive spending is requested as a direct result of incentive program changes recommended in the attached policy; however, ongoing budget pressures relating to the current tax increment grant and RDC Bylaw commitments noted above will be addressed in the 2022 budget. It is important to note that there may be increasing budget pressures in future to sustain funding as some incentive programs have no caps, and fluctuate significantly in uptake year to year. Funding for incentive programs from provincial and federal governments may also vary considerably from year to year, which will continue to effect program budgets. It is requested that budget made available as legacy commitments expire be considered for reinvestment in the Priority Area programs and to support the costs of any program administration enhancements.

Future investment will be guided by program performance over time; key variables such as pandemic recovery, the housing market, and employment patterns; and provincial and federal funding opportunities.

Any additional funding for incentives would come through:

- Repurposing existing grant dollars, which has no incremental tax impact, enables alignment with Regional priorities but takes time to realize;
- Provincial or federal funding, which may minimize tax impact but is often unpredictable, reactive, unaligned with Regional priorities and time sensitive; and/or
- Increasing taxes, which makes funding available immediately and supports sustainable, targeted programs but has an impact on low income households and housing affordability.

Analysis

Catalysts, Goals and Direction of the Incentive Review

Times have changed, and Niagara has changed, significantly since the first Regional incentive programs began in 2002. The economic, social and growth climates are very different now, with the pandemic adding yet another layer of change. Incentive programs during this period have proliferated in number, variety and cost: Niagara Region now partners on over 150 different incentives programs. Regional incentives are the largest discretionary item in the Regional budget, amounting to \$14 million (3.5% of the tax levy) in 2021. Administrative and technological advances also mean

there are new ways to facilitate more efficient service and track program performance to better measure incentives' success.

In 2018 Regional Council endorsed a review of most incentive program delivered by Planning and Development Services, Corporate Services, and Economic Development. The goals of this review were to review current programs, and create Regional incentives that align with Regional priorities and responsibilities, address current and future needs, provide meaningful and measurable results, and ensure incentives are sustainable, clear and accountable. Further direction was provided by Council in 2019 when staff were directed to align Regional incentives into four Priority Areas: Affordable Housing, Employment in Key Sectors, Brownfield Remediation and Public Realm. Following this direction the review was expanded to include Regional incentives for affordable housing and related development charge incentives.

Key Review Components

(1) Audits and Research

In 2018 two audits of Regional incentives were undertaken: a process audit (Phase 1), which considered the efficiency and effectiveness of current incentive procedures, and a value-for-money audit (Phase 2), which evaluated performance, reviewed the working relationships between the Region and Local Municipalities, and benchmarked Regional incentive administration against similar municipalities. These audits produced interesting findings and identified the following opportunities for improvement:

Phase 1

- The Region has not developed an overall master agreement nor operating procedures/policies for the various grant and incentive programs
- Regional interests and priorities have not been sufficiently identified or communicated to support the evaluation and approval processes
- [There is] Inconsistent and insufficient post-award monitoring to validate application accuracy and measure overall program success

Phase 2

- The Region needs to consider program rationalization
- [There is a] Lack of master agreement or standard operating procedures

- [There are] Insufficient performance measures to report on program success and compliance
- The Region can provide greater value-added support to improve administrative efficiency and program success

The research and analysis included in the two audit reports has been supplemented by staff research and data analysis of incentive programs, and studies conducted by KPMG providing information on incentives in other municipalities and the performance and sustainability of Regional incentives. These data, coupled with input obtained through engagement, have shaped recommendations and Regional Incentive Policy.

(2) Engagement

Internal and external engagement has been conducted throughout the incentive review. Internally, Regional staff working with incentive programs were interviewed and program documents, data, processes and procedures were reviewed. There has also been communication and coordination with other Regional initiatives related to the identified Priority Areas, e.g., the Affordable Housing Steering Committee, the Regional Development Charge Task Force. In addition, several reports and presentations on incentives have come before Regional committees and Council since 2018, including most recently a Regional Council Information Session on incentives held July 22, 2021.

External engagement has included outreach to the public and program stakeholders, with a particular focus on Local Municipalities as the Region's largest incentive partners. These engagement milestones include:

2018: Interviews with each local municipality regarding incentive programs for the audits, and a written comment period following the second audit report

2019: Meeting with local municipal staff

2020: Meeting with local municipal staff and survey – programs and priority areas

2021: Public Webinar; Public (453 responses) and Stakeholder (73 responses) surveys; Meeting with local municipal staff; local municipal staff survey – proposed programs

Recommendations

Recommendations proposed through the Regional incentive review meet the goals of the incentive review, address the findings of the audits, and enhance incentive programs by:

- ✓ Communicating Regional priorities and aligning programs and policy with them
- ✓ Consolidating incentives into a single Niagara Region Incentives Policy to provide greater clarity around programs; flexibility to update policy and programs; consistency with other Regional policies and procedures; continuous improvement by ensuring regular program and policy review;
- ✓ Updating performance measures and maintaining databases and Council reporting tools to better measure and report program success;
- ✓ Improving customer service by instituting a one-window delivery system; and,
- ✓ Modernizing program information and processes by moving more incentive information and interaction online.

Information on the specific incentive programs recommended for each Priority Area is included in Appendix 2. Recommended programs meet Council's direction through:

- (1) Improving existing programs in the Priority Areas, e.g. the Affordable and Supportive Housing RDC Deferral (Affordable Housing), the Gateway Economic Zone and Centre Community Improvement Plan incentives (Employment), the Brownfield Tax Increment Grant program (Brownfield Remediation), and the Public Realm Improvement Program (Public Realm);
- (2) Targeting or repurposing existing programs to align with Council Priority Areas, e.g., the Non-profit RDC Grant, Residential Rental Grant and Small Building Rental Grant;
- (3) Updating programs to ensure their sustainability, e.g., the Employment RDC Grant and the Brownfield RDC Deferral; and,
- (4) Creating a program to ensure access by all Local Municipalities to Priority Area incentives, i.e. the Niagara Business Attraction Tax Increment Grant.

Implementation

If the Niagara Region Incentive Policy is approved, work will begin to implement aligned programs as of January 1, 2022. Exceptions to this implementation date are any RDC incentive programs currently included in the Regional Development Charge Bylaw (Bylaw 2017-98), which will expire on August 31, 2022. From January 1 – August 31,

2022, applicants will be able to apply under either the new Niagara Region Incentive Policy program or the existing RDC Bylaw program incentive program.

To support incentive partners and stakeholders, Regional staff will hold information sessions on the newly aligned Regional incentives (e.g., how they may coordinate with local programs, new processes and procedures) and consult with local municipalities on key program components to be updated for some incentive programs (e.g., employment incentives). Engagement for other initiatives such as the Regional Development Charge Bylaw will also continue in 2021-22 through the RDC Task Force.

Alternatives Reviewed

As this report provides recommendations requested by Council through the Regional incentive review no alternatives have been provided.

Relationship to Council Strategic Priorities

The recommendations in this report support the following 10 objectives in all four Council strategic priorities:

Priority 1: Supporting Businesses and Economic Growth

- Objective 1.1: Economic Growth and Development
- Objective 1.2: Support retention and development of skilled labour force
- Objective 1.3: Collaborative Approach to Business Growth and Retention
- Objective 1.4: Strategically Target Industry Sectors

Priority 2: Healthy and Vibrant Community

- Objective 2.1: Enhance Community Wellbeing
- Objective 2.3: Addressing Affordable Housing Needs

Priority 3: Responsible Growth and Infrastructure Planning

- Objective 3.2: Environmental sustainability and stewardship (14)

Priority 4: Sustainable and Engaging Government

- Objective 4.1: High quality, efficient and coordinated core services
- Objective 4.2: Enhanced Communication
- Objective 4.3: Fiscally Sustainable

Other Pertinent Reports

- PDS 42-2017 Overview of 2018 Incentive Review
- PDS-C 19-2018 ICOP Phase 1 Audit Report on Regional Incentive Review
- PDS-C 31-2018 ICOP Phase 2 Audit Report on Regional Incentive Review
- PDS-C 38-2018 Local Municipal Responses to Incentive Review Audit Report
- PDS 22-2019 Regional Incentives Financial Information
- PDS 34-2019 Grants and Incentives Review
- CSD 55-2020 Sustainability Review Final Report

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Appendices

Appendix 1	Niagara Region Incentives Policy
Appendix 2	Realigned Niagara Region Incentive Programs
Appendix 3	RDCPT-C 7-2021 Development Charges Grant Expenditures under 2017 Regional Development Charges By-law