
Subject: Regional Development Charges Grants and Exemptions Summary

Report to: Corporate Services Committee

Report date: Wednesday, May 8, 2019

Recommendations

That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to provide Council with an update on grants and exemptions provided under the Regional Development Charges (RDC) By-law 2017-98 for the year 2018.
- As outlined in Table 1, RDC grants and exemptions totaled approximately \$13M with an available budget of \$4.2M representing a negative budget variance of \$8.8M for 2018.
- These grant and exemptions have been previously established through the Development Charge (DC) By-law 2017-98 and must be funded in order to ensure dollars are available in the DC reserves to pay for the necessary infrastructure to facilitate development as per the Development Charge Background Study.
- Operating budget shortfalls were identified during deliberations of the 2017 RDC By-law, as well as during the preparation of the 2018 and 2019 Operating Budgets.

Financial Considerations

For 2018, the budget for RDC grants and exemptions totaled \$4.2M, which included \$2.5M in one-time funding from reserves. A portion of the available budget for 2018 was specifically allocated to the Industrial RDC program (\$1.05M) and the Not-For-Profit (NFP) grant program (\$150K) with the remainder allocated to all other grants and exemptions (i.e., \$3.04M). RDC grants and exemptions totaled approximately \$13M for 2018 resulting in a negative budget variance of \$8.8M. A summary of the grants and exemptions provided by each category is summarized in Table 1 below. These programs are funded through the property tax levy, and therefore, the funding surplus/deficit for the program is consolidated into the overall yearend corporate surplus/deficit.

As reported in the Q4 2018 Financial Update Levy Regional Departments incurred a year end deficit of \$1.7M which can primarily be attributed to the \$8.8M deficit within the RDC grants and exemptions. This deficit was primarily offset by savings in compensation due to corporate wide vacancies, lower than budgeted consulting costs and increased in supplemental taxes for the year. This funding would have been used to

fund reserves such as the tax payer relief reserve, which are available to mitigate in year expenditure pressures or revenue shortfalls such as gaps in Provincial funding, or capital reserves to help reduce the anticipated 2020 funding gap of \$78.6M as presented in the 2019 Capital Budget and nine year forecast.

Table 1: Summary of RDC Exemptions & Reductions for 2018

| | Budget | Actuals | Variance |
|--------------------------------------|------------------|-------------------|--------------------|
| | 2018 | 2018 | 2018 |
| Other Economic Incentives: | | | |
| 50% Industrial - (M) | | 485,930 | |
| Intensification RDC Reductions - (M) | | 93,320 | |
| Phase in costs - (D) | | 3,704,185 | |
| Brownfield - (D) | | 323,822 | |
| Smart Growth Niagara - (D) | | 365,958 | |
| Board of Education - (D) | | 36,267 | |
| NRH - (D) | | 1,142,263 | |
| Parking garage - (D) | | - | |
| Agriculture - (D) | | 5,380,931 | |
| Place of Worship - (D) | | - | |
| Hotels/Motels - (D) | | 274,994 | |
| Other (D) | | 41,888 | |
| Subtotal - Other Economic Incentives | 3,037,674 | 11,849,558 | (8,811,884) |
| Non-Profit - (D) | 150,000 | 143,669 | 6,331 |
| Industrial and Gateway - (D) | 1,050,000 | 1,053,578 | (3,578) |
| Total | 4,237,674 | 13,046,804 | (8,809,130) |

Note: (D) – Discretionary, (M) – Mandatory

These grants and exemptions have been previously established through the RDC By-law 2017-98 and must be funded in order to ensure dollars are available in the RDC reserves to pay for the necessary infrastructure to facilitate development as per the Development Charge Background Study. While some of the grants and exemptions are discretionary (i.e., not required by legislation) they become obligatory when included in the By-law and will remain available for the duration of the current RDC By-law (set to expire in 2022).

Analysis

Industrial Grant Program (Discretionary Program Only):

As part of the 2017 RDC By-law deliberations, Regional Council reaffirmed its commitment to providing the Industrial RDC grant program for the duration of the current By-law period. The program maintains a budget of \$1.05 million annually and is

intended to assist applicants who are constructing facilities that meet the definition of industrial use under the current RDC By-law. This program is also in addition to the mandatory expansion exemption for industrial buildings as identified under the other economic incentives section of table 1.

A summary of the applications received through 2018 for the Industrial Grant Program have been provided below in Table 2 with additional detail included in Appendix 1.

Table 2: Summary of Approved Industrial RDC Grant Applications 2018

| Year | Application Count | Program Funding | Economic Impacts | |
|------|-------------------|-----------------|--------------------|----------|
| | | | Construction Value | New Jobs |
| 2018 | 15 | \$1,053,578 | \$38,700,000 | 165 |

Based on the estimated construction value of \$38.7 million, it is projected that these properties will generate an estimated annual Regional tax revenue increase of \$433,000 resulting in a Regional payback period of 2.78 years or an approximate payback of 3.27 years when considering impacts of five approved tax increment grants for gateway projects.

Not-for-Profit Grant Program:

The NFP RDC grant evaluation panel considered ten applications in 2018, nearly exhausting the \$150,000 budget. In accordance with the program guidelines, applications were evaluated on an as received basis (first come, first served basis). Of the ten applications received in 2018, eight received a grant which offset the full RDC which would have otherwise been payable. The respective local municipalities have been advised of decisions of the grant evaluation panel. Program funding will continue to be available in 2019.

A listing of the applicants, application date, development description, grant value requested and approved grant amount are attached as Appendix 2 to this report. All applications received were evaluated against program criteria that includes the following:

- The organization is exempt from municipal taxation under the Assessment Act, or taxation under Provincial or Federal legislations;
- Must not restrict memberships in any way;
- Apply for funding within 1 year of receiving a building permit; and
- Demonstrate how the development supports Niagara Regional Council's Strategic Priorities.

Those applications that were not approved did not demonstrate adherence to the established program requirements.

While a payback period has been provided for other select exemptions, it is not applicable given the nature of this program.

Brownfield RDC Reduction Program:

A brownfield RDC reduction was originally approved as part of the former RDC By-law (62-2012). Under the former By-law, eligible properties received a 50% reduction of RDCs owing for the redevelopment of brownfield properties upon building permit issuance. As part of the updated RDC By-law (2017-98) enacted by Council in late 2017, the brownfield reduction program was amended so that the amount of the RDC reduction was capped at the developer's site remediation costs. The updated program was included as part of By-law 2017-98 as schedule D and is intended to encourage redevelopment of brownfield sites and creating development costs more in line with that of greenfield sites.

A total of seven applications were received by the Region during 2018. Of the seven applications received during the year, four were approved resulting in approved eligible costs of \$28,393,544. During the year there were three applications that were not approved for funding as a result of outstanding information yet to be submitted by the applicants. The approved eligible costs are the maximum (or cap) for the program. Often, the RDC grant is lower than the eligible costs. Many of the approved developments under this program also have applied for other tax incentive programs for their projects. As per schedule "D" paragraph (f) of Regional By-law 2017-98, approval for funding under the Regional Brownfield Development Charges Reduction Program will result in reductions to future grant program amounts for these properties, if applicable.

The grants under this program are recorded at time of building permit issuance meaning that the grant expenditures recorded under this program totaling \$323,822 (as noted in Table 1) do not reflect the approved eligible costs. Therefore, there is a net of \$28M that could be granted back through development charge or tax increment grants, dependent upon future building permits and current value assessments. The grants actually paid during 2018 assisted in the remediation of approximately 5 acres of brownfield properties within the Region.

Other Non-Application Based Programs:

The majority of the grant programs noted in Table 1 are not application based, meaning that they are automatic reductions that are available to a developer as long as they meet the definition of each development type. Four categories of these discretionary exemptions have seen significant amounts awarded as outlined in Table 3 totaling approximately \$10.5M (or approximately 80% of all awarded grants). Presented in Table 3, is an estimated payback for each grant if available.

- Phase in Program - This was a Council policy decision with the 2017 DC Bylaw to lessen the immediate impacts of the RDC increase (phase out ends Sept 1, 2019). A payback calculation is not provided as this category includes all building types and all permits issued during 2018.

- NRH Exemption - While the payback period has also been provided for affordable housing grants, it may not be the best measure as a result of other qualitative factors that may be applicable to this development type. Despite this fact, an 11 year payback period has been calculated which is in line with the useful life of this asset type.
- Agricultural exemptions - construction value has been estimated based on similar construction types and has an estimated payback period of 154 years.
- Hotel/Motel Phase in Program - The phase in reduction for hotel/motel is for 19 separate building permits. This phase-in program adopted by Regional Council is scheduled to end August 31, 2021. The payback period for this category has been estimated at 4 years.

Table 3: Summary of Significant Non-Application Based Grants

| Program | Grant Count | Program Funding | Economic Impacts | | |
|----------------------|-------------|---------------------|---------------------------------|--------------------------|----------------|
| | | | Construction Value ¹ | Estimate Payback (Years) | New Jobs |
| Phase in costs - (D) | 1759 | \$3,704,185 | Not Available | Not Available | Not Available |
| NRH - (D) | 2 | \$1,142,263 | \$24,975,000 | 11 | Not Applicable |
| Agriculture - (D) | 10 | \$5,380,931 | \$32,926,725 | 154 | Not Available |
| Hotel/Motel – (D) | 19 | \$274,994 | \$9,500,000 | 4 | Not Available |
| Total | 1771 | \$10,502,373 | \$67,401,725 | | |

Notes:

¹ Constructions values are estimates only and are based on current market/assessment trends. This information is not collected for non-application based program.

Alternatives Reviewed

Not Applicable.

Relationship to Council Strategic Priorities

These RDC grants and exemptions have been identified by the previous Council as programs vital to generating growth within the Region.

Other Pertinent Reports

Not applicable.

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Appendices

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| Appendix 1 | Industrial RDC Grant Summary 2018 |
| Appendix 2 | Non-Profit RDC Grant Summary 2018 |
| Appendix 3 | Brownfield RDC Grant Summary 2018 |