
Subject: Regional Incentives Financial Information

Report to: Planning and Economic Development Committee

Report date: Wednesday, May 8, 2019

Recommendations

1. That Report PDS 22-2019 **BE RECEIVED** for information; and
2. That a copy of Report PDS 22-2019 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The purpose of this report is to provide background on the financial implications and funding for the Region's incentive programs - particularly tax-related grants accessed through projects eligible under Local Community Improvement Plans (CIPs), as directed by Council at meeting on April 25, 2019.
- The Smarter Niagara Incentive Program (SNIP) is a suite of Regional incentive programs providing matching grants to eligible projects in Local Municipalities (LAMs). SNIP incentives are divided into simple grants (e.g., building and façade improvement grants) and tax-related grants (e.g., tax increment grants).
- Niagara Region is a funding partner on more than 50 CIP-based incentive programs across Niagara. Since May 2017, Regional Council has consistently directed staff to defer partnering on any new or revised incentive programs included in CIPs approved by the LAMs, pending completion of the ongoing Regional incentive review. As of March 2019 this has affected four new or revised locally approved CIPs.
- On April 25, 2019, Council approved including all CIPs which had been or will be locally approved by December 31, 2019 as eligible to submit Regional matching funding requests for SNIP simple grants and Council approved a budget of \$600,000 for 2019 for this purpose. A report on the financial implication of tax-related SNIP grants was also requested.
- SNIP simple grants and tax-related grants are budgeted for and administered in different ways. A description of the financial implications of SNIP tax-related grants, specifically tax increment grants is outlined below, but Regional funding requests for SNIP tax increment grants in 2019 could well be in excess of \$5 million over the life of the grants, usually 10 years.
- Nineteen Regional incentive programs (Appendix 1) administered by the Planning and Development Services, Finance, and Economic Development departments are

currently under review, including SNIP incentives. A presentation on Regional incentives and the Regional incentive review is scheduled for the Committee of the Whole meeting on June 6, 2019.

Financial Considerations

SNIP Simple Grants

SNIP simple grants are funded through an annual line item in the Levy budget (i.e. \$600,000 in 2019). This funding is allocated to applicants from the LAMs who match the funding and apply through a quarterly, first-come, first-served basis for eligible projects, until the budget limit is reached. In 2016 and 2017, funding from reserves was required to meet historical Regional incentive commitments for SNIP simple grants beyond the \$634,000 annual budget for each of those years, depleting reserves for these programs. (The SNIP simple grant budget was not exceeded in 2018). The unused funds are treated as all other operating budget surpluses for the corporation. No allocation to reserves is budgeted.

SNIP Tax Increment Grants

SNIP tax increment grants (TIGs) are generally larger financial commitments of longer duration than simple grants. They are funded differently from simple grants. The budget is established in the first year of completed construction when the property is added to the tax roll and funded directly from the assessment growth in that year. The budget for grant/repayment expense is established in that year until the completion of the duration of the commitment - usually 10 years. The 2019 SNIP TIG budget is \$1.6 million. As most of the TIGs are for a 10 year period the cumulative impact of TIGs for which the Region is currently committed is a total over \$30 million through 2030. For all Regional tax increment grant commitments (including Gateway CIP tax increment grants), the total Regional commitment is over \$50 million through 2030. These amounts includes applications approved for which construction is not yet complete therefore assessment growth has not yet occurred and the expense budget respectively has not been established.

Each year the Region includes in the budget process the estimate of additional taxation revenue generated from new development (assessment growth). Historically this new revenue had averaged 1.31% of tax levy or \$4.2 million. Before this revenue can be utilized to fund the cost of services associated with the growing development and population, some must be set aside to provide for the repayment of the TIGs. The concern is that with the expansion of CIPs to greater proportion of the Region, more properties will become eligible, more taxes will be refunded and less funding will be available to fund operating expenses.

In 2019 to date, the Region has received approximately \$5 million in outstanding requests for matching SNIP TIG funding from eligible CIP programs, with more anticipated in 2019, these new commitments will be budgeted across the life of the grants, usually 10 years. This \$5 million is 1.3% of the Regional levy and has the potential, based on the timing of construction, to further erode assessment growth revenue. If the five new or revised locally approved CIPs, four of which have TIG programs, also become eligible for SNIP TIG matching Regional funding, there could be a considerable increase to the 2019 Regional request figure.

Analysis

Nineteen of the Region's incentive programs administered by the Planning, Economic Development and Finance departments are currently under review. A presentation for Councillors on these incentive programs and the incentive review is slated for the June 6, 2019 Committee of the Whole meeting. This report deals specifically with one of oldest of these Regional programs, an umbrella incentive program called the Smarter Niagara Incentive Program, or SNIP.

As noted, SNIP incentives provide matching Regional funding for eligible projects approved by the LAMs through CIPs and all 12 Niagara LAMs have access to Regional SNIP incentives. Ten of the 12 LAMs have CIP programs offering a range of incentive types, and the Region matches over 50 of these programs.

SNIP and Tax Increment Grants

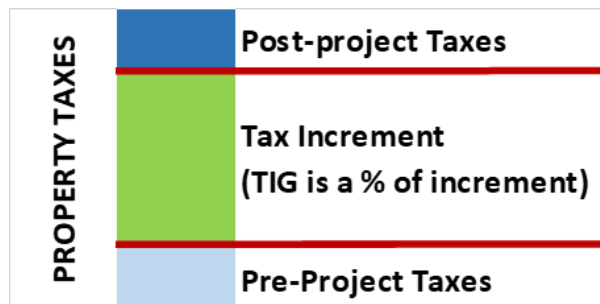
Below is information specifically on the tax increment grant (TIG).

TIGs, such as the SNIP Property Rehabilitation and Redevelopment Tax Increment Financing Grant (SNIP TIG), are grants based on a percentage of the tax related to the additional assessment created from the new construction (the difference between pre- and post-construction assessment) generated when a property is rehabilitated or redeveloped. The TIG is intended to refund taxes attributed to growth.

There is some inconsistency in the methodology by which some LAMs calculate the TIG. The simplest of methods to calculate this in an environment of annual changes to the assessment due to reassessment and increase in taxation (due to increase in budget and tax levies) where the grant is determined in the first year of the new assessment generated and then to continue to refund that 'fixed' amount annually for 10 years. This allows for consistency for the Region and developers.

Some LAMs however calculate the amount each year at a percentage of the taxes paid. This 'variable' methodology has the additional impact of refund budget increases and/or impacts of tax shifts due to reassessment. This methodology is also more challenging

to predict and budget for and additionally has risk to the developer to go down upon a reassessment shifts.



Through the SNIP TIG program, the Region matches the percentage and duration of the locally approved TIGs according to program parameters contained in each local CIP. Each LAM, and indeed each CIP even within the same municipality, may have a different TIG eligibility, rates, durations, and parameters. This means Regional funding for each TIG may differ substantially, depending on the CIP under which it is provided. The only Regional parameter cited in the current SNIP incentive program is that the Region will provide a minimum 75% grant rate for eligible brownfield TIGs.

Regional funding requests for SNIP TIGs are complex and require greater administrative review than SNIP simple grants. They typically involve review by policy planning, development planning and finance staff to determine whether it is an eligible request; the status of the project; the implications of the grant term, cost estimates, and building timelines; the potential impact for other incentives leveraged by the project; and whether it is eligible for delegated staff approval. SNIP TIG funding requests from all LAMs with eligible matching programs are accepted on a rolling in-take basis; there are no Regional limits on number of applications or funding amounts requested.

Regional Incentive Review

A review of many Regional incentives, including the SNIP suite, is underway. Objectives of this review are to ensure that Regional incentive programs align with Regional Council priorities and are clear, current, accountable and effective. Following a presentation on Regional incentives to Councillors on June 6, reports through the Planning and Economic Development Committee regarding the incentive review are anticipated in June-July 2019. These presentations and reports will provide background on Regional incentives and existing programs; outline the rationale for and status of the incentive review; and seek Council direction on targeted areas for Regional incentive funding. New or revised programs based on this direction and review findings will be developed and are expected come before Council in fall 2019.

Alternatives Reviewed

This report is for information; no alternatives were considered.

Relationship to Council Strategic Priorities

N/A -- this report is brought forward in response to a motion approved at the April 25, 2019 Regional Council meeting.

Other Pertinent Reports

CL-C 35-2019	Parameters of Regional Matching Funding for Smarter Niagara Incentive Program Tax Increment Grants
PDS 31-2018	Regional Incentive Delivery and Eligibility in 2019
PDS-C 8-2018	Regional Incentive Review and Community Improvement Plans
PDS 42-2017	Overview of 2018 Incentive Review
PDS 33-2017	Smarter Niagara Incentive Program 2017 Budget Update
PDS 6-2017	Town of Lincoln Request for the Region to Participate in its New Community Improvement Plan Incentives Program
PDS 97-2011	Review and Update of the Smarter Niagara Incentive Programs

Prepared by:

Doug Giles
Director, Long Range and Community
Planning

Recommended by:

Rino Mostacci, MCIP, RPP
Commissioner
Planning and Development Services

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was reviewed by Doug Giles, BES, MUP, Director, Community and Long Range Planning and Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer

Appendices

Appendix 1 List of Regional Incentive Programs Under Review