Subject: Niagara Region Incentive Policy Review

Report to: Committee of the Whole

Report date: Thursday, September 5, 2024

Recommendations

1. That the following changes to the Niagara Region Incentive Policy (NRIP) C-A-028 (Appendix 1) **BE APPROVED** and implemented by Staff in an updated NRIP:
   a) Remove “Non-profit Affordable Rental Housing RDC Deferral” from NRIP as it has been rendered obsolete due to recent amendments to the Development Charges Act through Bill 23;
   b) Move “Welcome Home Niagara Home Ownership”, “Niagara Renovates Homeownership”, “Niagara Renovates Multi-residential", “Non-Profit and Co-op Capital Repair Costs”, and “Housing Provider Capital Loan” programs from the NRIP to be included in the Programs Listing provided by Community Services through the Housing Services division mandate;
   c) Move the “Public Realm Investment Program” (PRIP) and “Public Realm Priority Area” from the NRIP to be included with other Public Works programs that are only available to Area Municipalities;
   d) Remove the affordable housing component from the “Brownfield TIG Tier 1 and Tier 2” and change to an annual tax increment grant of 80% for both tiers;
   e) Move Mandatory DC programs, “Intensification RDC Grant” and “50% Industrial Expansion RDC Grant”, outside the NRIP;
   f) Remove and discontinue the “Small Buildings Rental Grant” and the “Residential Rental Grant”.
2. That Staff **BE DIRECTED** to Assess the “Partnership Housing Program” and develop and report back to Council regarding a new purpose-built rental housing incentive program with the goal of increasing the supply of rental housing.
3. Any financial recommendations **BE REFERRED** to the 2025 Budget process.
4. That a copy of Report PDS 26-2024 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The purpose of this report is to provide Council with a review of the current Niagara Region Incentive Policy (NRIP) and convey the challenges, effectiveness, and any recommended changes to the NRIP as directed by Council in October 2021.
- In preparation of this report, consultations were carried out through workshops with Local Area Municipalities on April 27, 2024, April 29, 2024, and May 2, 2024; a development industry focus group meeting on June 13, 2024; a Council information session on June 27, 2024; and a workshop with the development industry and non-profit providers held on July 18, 2024.
- In 2021, the Region's incentive programs were organized into four priority areas aligned with Council's Strategic Priorities: Affordable Housing, Employment, Brownfield, and Public Realm.
- The NRIP consists of DC exemptions, DC deferrals, one-time grants and other incentives like Tax Increment Grants which are matching funding programs administered by Area Municipalities through Community Improvement Plans (CIPs).
- There are incentive programs (SNIP "Property Rehabilitation and Revitalization Tax Increment Grant" and the "Smart Growth Regional Development Charge Reduction") outside of the NRIP that are ending October 1, 2024, and will continue to have a financial impact on the budget through the year 2037.
- The Region's incentive policy requires updating, as it currently includes programs that are not discretionary. To simplify the Policy, it should only include discretionary programs designed to align with Council Strategic Priorities. Provincial flow-through programs, mandatory DC grants, and public realm grants will be moved outside the NRIP.
- Programs moved outside the NRIP will continue to be delivered. All incentives offered by the Niagara Region, including Provincial, Mandatory, and Discretionary will be listed on the website on a landing page.
- The Public Realm programs will be relocated outside of the Policy and will reduce the number of priority areas from four to three. Public Realm programs provide streetscape grants to municipalities and belong with other Public Works programs accessible to Area Municipalities.
- The current housing affordability and supply crisis also includes a shortage of rental housing of different types. Staff are recommending developing a purpose-built rental incentive program that can contribute to more rental housing being built in Niagara. The objectives of the current "Small Building Rental Grant" and "Residential Rental

Grant" will be captured in this new purpose-built rental incentive program. Staff will come back with a proposed purpose-built rental housing program by January 2026.

- Modifications to the NRIP are also required because of recent changes to Provincial Legislation through Bill 23 and Bill 185.
- Based on consultation, the Brownfield TIG Tier 1 and Tier 2 will be simplified by removing requirements related to affordable housing and fixing the TIG amount to 80% for both Tiers.
- Subject to Council's approval of the recommendations in this report, the NRIP and related Procedures and ancillary documents (e.g., application forms) will be updated accordingly.

Financial Considerations

The purpose of having incentives is to enable the Region to exercise its discretion to leverage Regional funds to actualize a desired type of development that would not otherwise happen without public investment, in accordance with Council policy. However, incentive programs have a direct impact on the Region's budget.

Incentives represent the largest discretionary item in the Niagara Region budget at $23,258,526. Funding of Regional incentives is addressed through annual budgetary cycles. As such, any recommended changes to the Region's incentive program budgets will be brought to the 2025 budget process. Though funding may be repurposed, this review is not resulting in a request for an increase in the total incentive funding levels for 2025. Mandatory programs being recommended to be moved outside the Policy will continue to operate and require funding for the 2025 budget and beyond.

There are three financial considerations that impact the effectiveness of the incentives policy.

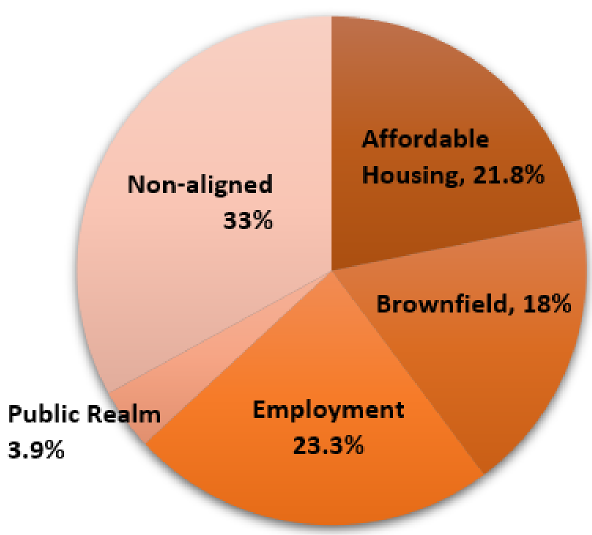
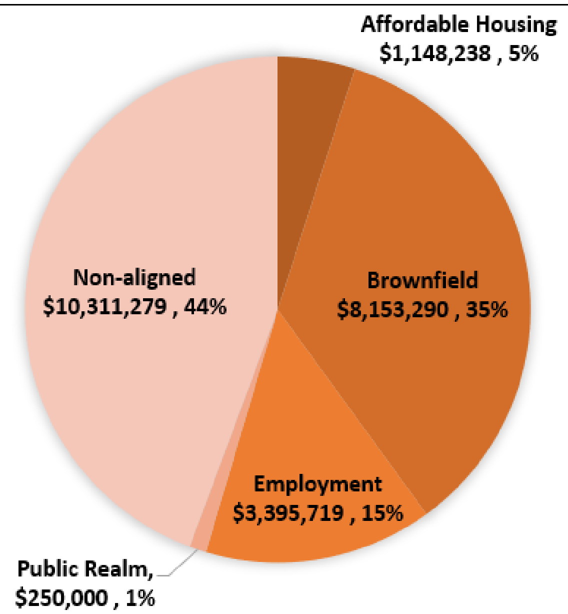
1. SNIP Property Rehabilitation and Revitalization Tax Increment Grant and the Smart Growth Regional Development Charge Reduction

There are expiring incentive programs that sit outside of the NRIP which commit the Region through to the year 2037. In 2021, as part of the approval of the new NRIP, Council also approved the extension to the existing "SNIP Property Rehabilitation and Revitalization Tax Increment Grant (SNIP TIG)" and the "Smart Growth Regional Development Charge (RDC) Reduction" to end on October 1, 2024. These ending programs were extended to assist projects already in the queue with meeting application timelines of the day. Approved funding committed through these programs will be paid out on an annual basis as projects are completed to the year 2037. Until such time, these commitments will challenge the financial capacity of the Region to respond to new priorities and commit to further funding within the remaining three priority areas.

Report PDS 31-2021 identified that 33% of the Region's non-aligned discretionary spending including SNIP TIG and Smart Growth RDC Reduction was outside of the four priority areas. In 2024, this figure increased to 44% which represents $10,311,279 of the Region's discretionary budget as shown in Chart 1 below.

Chart 1 Regional Incentive Spending by Priority Area 2021 and 2024

<table>
<tr><th>Spending in 2021

(PDS 31-2021, Chart 1 Page 3)</th><th>Spending in 2024</th></tr>
<tr><td>
</td><td>
</td></tr>
<tr><td colspan="2">The "non-aligned" segment of the chart includes the expiring programs of SNIP and Smart Growth, Hospital and Hospice funding, and other discretionary expenditures.</td></tr>
<tr><td>2021 Chart shows Affordable Housing at 21.8%, Employment at 23.3%, Brownfield at 18%, Public Realm at 3.9%, and Non-aligned 33%</td><td>2024 Chart shows Affordable Housing at 5%, Employment at 15%, Brownfield at 35%, Public Realm at 1%, and Non-aligned at 44%</td></tr>
</table>

2. Policy Refinement

The Policy includes programs that have little to no up-take, limited or no funding, and extensive administration. Therefore, to enhance the effectiveness of the incentive policy and address the challenges of delivering programs in the future, the report recommends housekeeping measures which would remove excess programs that are no longer discretionary or impactful.

The housekeeping measure is intended to remove mandatory programs, provincial flow-through programs, municipal public realm grants from the Policy. Refining the list of programs within the policy will reduce confusion and simplify and enhance the administration of the remaining programs. The report also recommends discontinuing unfunded or lesser funded programs. Programs that continue will target funding towards increasing housing supply of affordable units, increasing employment, and the remediation of brownfields.

3. Budgetary Impacts

Any increase in funding will require budgetary realignments elsewhere in the budget to meet the cost of funding the new programs and pay out the commitments made through SNIP and Smart Growth. Funding the new and old programs together, was a budgetary pressure that was identified in 2021. As a financial consideration, this report does not recommend increasing the funds the Region directs to incentives.

Analysis

The Niagara Region has been using incentives to support development since 2001. In 2021, the Region established four incentive Priority Areas consisting of Affordable Housing, Employment, Brownfield, and Public Realm. The Region’s choice to use incentives is related to three key objectives:

- Provide funding for specific types of development that would not occur without public financial assistance,
- Minimize or remove financial barriers that hold back specific types of development,
- Invest to unlock wider economic opportunities that spur on other developments within the surrounding geographic area.

The Niagara Region’s Incentive Policy currently comprises three types of incentive programs:

- **Mandatory Incentives**: The Region is mandated to provide these mainly through Provincial legislation in the DC Act and the Planning Act. These programs typically exempt or defer DCs for development the Province wishes to encourage. By exempting DCs, or deferring the DCs to a later date, the Region must make up the funding for the exemption through the levy. In this way, exemptions and deferrals of DCs still have a financial cost to the Region. An example of this type is the “50% Industrial Expansion RDC Grant” which is applied at the building permitting stage.

- **Discretionary Incentives**: These are incentives the Region choses to provide for the purpose of achieving a Council approved objective. An example of this type of incentive is the “Brownfield Tax Increment Grant Tier 1 and Tier 2”.
- **Provincial Flow-through**: This is a type of funding the Province provides to the Region to deliver programs on behalf of the Province using provincial guidelines, standards and processes. The NRIP includes five programs of this type that are recommended to move into the programs listing administered by Housing Services.

Since the approval of the NRIP in 2021, some priority areas have seen more program uptake than others. The varying levels of uptake of the programs can be attributed to factors such as: the extension of “old” programs, recent Provincially legislated exemptions, and inadequate funding levels of some programs.

One of the key challenges within the NRIP is that it contains a mix of Provincial, Mandatory, and Discretionary Programs. To achieve better clarity, the NRIP should only include discretionary programs that are targeted and funded by the Region. In this way, Regional incentives are applied toward community benefits that are important to the strategic goals of Regional Council and help with community building.

One way to address this challenge in the NRIP is to move Provincial flow-through programs and mandatory programs outside of the Policy into other Regional frameworks with similar programs.

Provincial flow-through programs are currently only found within the Affordable Housing Priority Area. Since the Province provides both administrative and financial support for these programs, it is recommended that this type of program is housed within a separate area that oversees the Province-to-Region relationship. Moving the Provincial programs into Regional Housing Services will not impact the delivery of these programs and will positively contribute to simplifying the NRIP.

Mandatory programs should be separated outside of the NRIP because they are Provincially mandated. This report recommends that two mandatory programs, “Intensification RDC Grant” and “50% Industrial Expansion Grant” move outside of the NRIP (See Appendix 2 and 3).

Similarly, the Public Realm Investment Program (PRIP) is recommended to be moved and placed within Public Works. PRIP belongs with other Public Works programs that Area Municipalities use in partnership with the Region. This program provides matching grants to Area Municipalities for streetscaping projects on Regional roads. Integrating the functions of the Public Realm priority area, PRIP, into the public works stream is a natural fit with other public works programs that govern the road infrastructure cost sharing arrangements.

The “Small Buildings Rental Grant” and the “Residential Rental Grant” are programs with small budgets and little or no uptake. These programs require extensive administration and are not delivering the intended purpose. It is recommended these programs are discontinued and removed from the Policy. Staff recommend instead developing a new, more comprehensive, targeted, and adequately funded program that will deliver purpose-built rental housing.

The recommendations in this report are influenced by consultations with Area Municipalities and discussions with the development industry. In both instances, staff heard that Regional incentives are important to realizing Local and Regional goals. In addition, Regional and local alignment of goals could be strengthened through targeted programs and through a greater degree of flexibility to accommodate the conditions of the current development climate. The consultations also generated additional feedback into how the Region can be more effective through increased education, simplification of administrative processes, and consistency in program delivery. Representatives from the Development Industry noted that incentive programs and funding need a high degree of predictability.

The sections below provide analysis of the recommended changes for each of the four Incentive priority areas.

Affordable Housing Priority Area

The development sector is currently experiencing a slow down as high interest rates, increasing unemployment, stagnating wages, high labour and material costs, and the high cost of living are impacting affordable housing developments.

The Affordable Housing priority area of the NRIP holds a total of 12 programs. (See Appendix 1). Affordable Housing has three types of programs: Provincial, Mandatory, and Discretionary. The policy for the Affordable Housing priority area will be revised to reflect the following:

- Move the suite of Provincially funded programs into the Housing Services Listing of programs provided through Housing Services mandate.
- Remove the program that cannot be delivered due to Provincial changes in legislation including Bill 23 and Bill185 (“Non-profit Affordable Rental Housing RDC Deferral” program),
- Move the “Intensification RDC Grant” program outside the NRIP,
- Discontinue the “Small Buildings Rental Grant” and the “Residential Rental Grant and;
- Revisit the “Partnership Housing Program” and develop a new purpose-built rental housing incentive program.

Provincially funded programs are not discretionary Regional incentives. The Region delivers these programs on behalf of the Province of Ontario. Separating these programs from the NRIP to be joined with similar programs within the Housing Services mandate will help to simplify the Policy. Programs to be moved include “Welcome Home Niagara Home Ownership”, “Niagara Renovates Homeownership”, “Niagara Renovates Multi-residential", “Non-Profit and Co-op Capital Repair Costs”, and “Housing Provider Capital Loan”.

Additional improvements to the Affordable Housing priority area include removing the “Non-profit Affordable Rental Housing RDC Deferral”. This program has been replaced by Mandatory DC exemptions for Non-Profit Housing and are therefore not recommended to continue.

The Policy also includes programs that are currently unfunded or funded with small budgets and have little or no uptake and should be removed from the Policy. The “Small Buildings Rental Grant” which has had no uptake provides a $15,000 grant per unit within buildings of six (6) or less units. The “Residential Rental Grant” which provides $40,000 for the creation of two (2) secondary suites within a unit received three applications in 2023. Both programs receive an annual budget of $75,000 each. These programs require extensive administration but are not delivering the intended uptake. Staff will discontinue these programs and develop a new purpose-built rental housing incentive. Report PDS 14-2024 Attainable Housing Strategy also identified the need for a new incentive program geared toward increasing the supply of purpose-built rental housing.

Staff will also revisit the “Partnership Housing Program”, which is currently unfunded, to be reshaped to incentivize the construction of new purpose-built rental housing units within urban areas, along transit corridors, and close to urban amenities and services.

In conclusion, to maximize effectiveness of the remaining programs within the Affordable Housing priority area, it is recommended to have fewer, targeted programs with greater funding capacity that can deliver timely and tangible results. Feedback from the consultations with Area Municipalities and the Development Industry indicated that incentivizing Affordable and Attainable Housing should be Niagara Region’s priority.

Employment Priority Area

In line with Council Strategic Priorities, the Employment Priority Area was created to attract and retain Employment in the region. The Employment priority area includes five programs. Four programs are discretionary, and one is a mandatory program (50% Industrial Expansion RDC Grant) (see Appendix 4). This report recommends that the mandatory programs be moved from NRIP.

Employment programs provided by the Region are well-utilized. The challenge to delivering employment programs relate to expediting and communicating the benefits of choosing Niagara. This report does not recommend program changes, however, to increase effectiveness of incentives, staff intend to make administrative improvements that will enhance the delivery of programs through streamlining processes, increased staff training, increased dialogue with Area staff, and standardization of forms and calculations.

Attracting new employers to Niagara Region is important and this report also highlights the competitive nature of employment incentives. Within the current global business climate, the Region competes with the rest of the World. Specifically, the Region competes with other Upper Tier and Lower Tier municipalities throughout Ontario, municipalities in other provinces, and even jurisdictions in the United States. A summary of how the Niagara Region’s programs and Canada’s attraction incentives compete with those of the United States is included in Appendix 6.

Niagara Region plays a leading role in promoting Niagara to the World through the employment priority area suite of programs.

Brownfield Priority Area

The Brownfield priority area holds a total of three discretionary programs ("Brownfield RDC Deferral", "Brownfield TIG Tier 1 and Tier 2", and "Large-scale Brownfield Regional DC Grant") each with the goal of assisting developers with the cost of remediating contaminated lands for the purpose of development. These incentives help to create an even-playing field so that brownfield projects are viable, and the upfront cost of remediation is less of a barrier to actualizing development.

Remediation of brownfield sites across the globe has been a best practice to revitalize contaminated derelict properties that once provided a benefit to surrounding communities but have closed and are no longer providing benefit. Transforming these sites into vibrant mixed-use places addresses the negative impacts from these vacant sites, cleans up contamination on the lands, and takes advantage of the many municipal services that surround the properties such as below grade infrastructure, roads, transit, and others. For the Region to incentivize the remediation of brownfields from vacant and contaminated sites to mixed-use centres contributes positively to housing supply, employment, complete communities, and increased assessment.

To improve effectiveness in this priority area, it is recommended that the "Brownfield TIG Tier 1 and Tier 2" program, which is a matching program within local Community Improvement Plans (CIP), be simplified by removing the affordable housing component which determines the percentage of tax increment. Instead, the BTIG Tier 1 and 2 will each have a grant amount of up to 80% of the tax increment. Removing this criterion from the program will help simplify the delivery of the program as the grant percentage for both tiers will be the same and affordable housing incentives will be delivered through the affordable housing priority area.

Feedback from the consultation sessions see (Appendix 5) illuminated the importance of maintaining simple, consistent, and targeted brownfield incentive programs. This feedback is especially important as brownfield project timelines can be long and at times unpredictable when compared to a typical greenfield development. In addition, much of the remediation work to clean up sites occurs out of pocket by the developer and without institutional financing.

Public Realm

The Public Realm priority area consists of one program, the "Public Realm Investment Program (PRIP)". This program provides matching grants to Area Municipalities and the NPCA for streetscape enhancements along Regional Roads and adjacent public spaces.

Since the Public Realm priority area consists of one program that is not available to the public, it does not align with the other priority areas which are aimed at incentivizing development.

This report recommends that PRIP is better suited to being integrated within current Public Works policies that direct cost sharing protocols between the Region and the Area Municipalities. Public Works is currently updating their policy set and this is the optimal moment to transfer PRIP out of the NRIP. This will simplify the NRIP by removing the Public Realm priority area which is not available to the development industry.

Consultation:

In preparation for this report, consultations were carried out through workshops with Area Municipalities on April 27, April 29, May 2, 2024; development industry focus group meeting on June 13, 2024; a Council information session on June 27, 2024; and a workshop with the development industry held on July 18, 2024 (See Appendix 5).

In reviewing the effectiveness and challenges of the NRIP and through the consultation with Area Municipalities and the Development Industry a range of administrative improvements have been identified in Appendix 5 and are summarized below:

- Increased Education and Training
  Due to high staff turnover in incentive administration, Area Municipal staff and the development industry identified the need for increased education for all staff who administer incentives. The creation of training videos focused on Regional program processes has been identified as a solution in the onboarding of new Municipal staff.

- Alignment between the Region and the Area Municipalities
  Working together requires better alignment approaches to ensure that both tiers of government are able to respond to the needs of the development community. This includes the alignment of timing, deadlines, approval cycles, working around changes in legislation and bylaw updates. Better alignment also includes collecting information and metrics in the same way and using consistent terminology and information.

- Simplification of Administrative Processes
  Regional incentive programs have been identified as being complex to use. Both the Area Municipalities and development industry want to see simplified Regional

paperwork, the removal of duplication, and the creation of streamlined application processes. To address these concerns, staff will be updating procedures and application forms to create better ease-of-use and adding website enhancements that will help developers to navigate the programs.

- Consistency
  The Region and the Area Municipalities will work together to drive forward an approach to greater consistency. This includes consistency of terms and definitions, timing, and submission cycles, delivery of programs terms and eligibility. Enhancing consistency will improve the level of service and increase the level of understanding for all programs.

- Financial Sustainability
  Funding incentive programs - both at the Area Municipality and Regional level - needs to be strategic, having sufficient funds to leverage intended outcomes, and ensure that funding long-term incentives is predictable.

- Develop Metrics
  To enhance the effectiveness of programs, future financial considerations must be guided by program performance over time. Programs must be targeted and designed to capture metrics and key performance indicators that can be used to monitor program performance and ensure that programs are actualizing intended development outcomes. These indicators would be developed in collaboration with Area Municipalities.

Alternatives Reviewed

Regional Council could choose to not approve the recommendations and keep the Incentive Policy as is. This alternative is not recommended as the Policy can be improved and simplified in the following: removing programs which have been replaced by Provincial legislation, programs which are inactive due to insufficient funding, and programs which would benefit from revamping to address the current needs of Niagara, specifically, purpose-built rental housing. In addition, the NRIP with the recommended revisions continues to meet the objectives of providing funding for specific types of development that would not occur without public financial assistance; minimizing or removing financial barriers that hold back specific types of development, and investing to unlock wider economic opportunities that spur on other developments within the surrounding geographic area.

Relationship to Council Strategic Priorities

The work described in this report contributes to Regional Council's 2023-2026 Strategic Priorities and its pillars relating to exploring ways to improve the effectiveness of the Incentive Policy, support more effective incentivization approaches to deliver affordable and attainable housing and incentives aimed at attracting employment.

- Effective Region
  1.2 Explore and implement opportunities to improve service delivery outcomes through shared services.

- Equitable Region
  3.2: Support growth and development following Bill 23, More Homes Built Faster Act, 2022
  3.3: Improve access to affordable and attainable housing

- Prosperous Region
  4.1 Attract and retain businesses, create jobs and support a skilled workforce in Niagara

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
- PDS 31-2021 Niagara Region Incentives Policy
- PDS 3-2022 Regional Transitional Incentive Timelines
- PDS 16-2022 SNIP Tax Increment Grant 2022 Update
- PDS C-11 2024 Inventory of Current Regional Incentives and Grants

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Appendices

Appendix 1: Existing Niagara Regional Incentives Policy C-A-028

Appendix 2: Niagara Regional Incentives Policy with Amendments

Appendix 3: Regional Incentives Policy 2024

Appendix 4: Council Information Session Handout

Appendix 5: Engagement and Consultation Summary

Appendix 6: Summary of Employment Incentives Within Canada and the United States