

Staff Report



To **City Council**

Service Area Infrastructure, Development and Enterprise Services

Date Monday, February 12, 2018

Subject **Downtown, Brownfield and Heritage Grant Performance Monitoring: 2010-2017 and Potential CIP Review Directions**

Report Number IDE-2018-01

Recommendation

That Council receive report # IDE-2018-01 titled 'Downtown, Brownfield and Heritage Grant Performance Monitoring: 2010-2017' and Potential CIP Review Directions'.

Executive Summary

Purpose of Report

- To report on the performance of the Brownfield Redevelopment CIP, Downtown Guelph CIP and Heritage Redevelopment Reserve Program.
- To report on the City's three Tax Increment Based Grant (TIBG) Programs: the Major Activation Grant under the Downtown Guelph Community Improvement Plan (CIP); the TIBG program under the Brownfield redevelopment CIP; and the Heritage Redevelopment Policy.
- To present draft directions for potential revisions to the Downtown CIP and the Brownfield Redevelopment CIP; and the City's financial approach to TIBGs
- To receive Council feedback on the draft directions.
- There are no decisions required at this meeting. The next step in the process will be to present proposed revisions to the CIPs at a Statutory Public Meeting in accordance with the requirements of the Planning Act in March.

Key Findings

- In 2012, the City took a significant step in the coordinated establishment of improved investment programs through the Downtown and Brownfield CIPs. The Heritage Redevelopment Reserve was established in 2007 for the same purpose. These major programs were supported by the establishment of a Tax Increment Based Grant Reserve for each program. In 2017, these three TIBG reserves

were consolidated into one Redevelopment Reserve Fund for ease of managing the administrative process.

- The programs were all designed to incent projects that would create significant tax assessment increases in areas deemed a high priority in the City. The corresponding property tax levy could be used to offset eligible costs recognized under the programs.
- The TIBG program established in 2012 had a total funding commitment of \$33M.
- Detailed reports for each of the CIPs are attached to this report, however the highlights are as follows:
 - The \$33M City investment in TIBGs has leveraged a ten-fold private investment in strategic projects. When fully built out approved projects will increase city tax revenue by approximately \$3.4 million annually.
 - The projects approved to date, when fully built-out, will create approximately 827 housing units and 16,000 m² of commercial and accessory office space.
 - Four cultural heritage resources are being rehabilitated and protected through adaptive re-use and designation.
 - 29 ha of contaminated land has been remediated along with the related reduction in threats to the City's drinking water.
 - The \$33M funding envelope has been substantially committed since 2014, and as a result, no new major projects have used the program in the past four years.
 - Revisions to the Downtown CIP are being considered to reflect the evolution of the downtown real estate market since 2012 and to continue to align public investments with city building and economic development CIP objectives.

Financial Implications

The financial model approved by Council is to fund the original \$33M commitment to the TIBG program through an incremental annual build-up of the base budget for contributions to the TIBG Reserve Fund. Each year for ten years the funding would increase to a peak amount of \$3.5M in 2021 at which point the base budget would then begin to decline back to zero in 2027. This funding strategy was in place to match the TIBG program requirements and commitments of \$33M.

The proposed revisions to the CIP programs hinges on moving the financial commitment for redevelopment from a one-time TIBG program to a long-term sustainable redevelopment incentive program. Staff are recommending that future funding for TIBG programs be modeled on the financial assumption that the base budget amount of \$3.5M will continue in perpetuity until such time that financial incentives are considered not required for redevelopment in the City. Further, staff are recommending that this amount be indexed annually effective 2022 to keep the redevelopment program competitive with the tax rates in effect in future years.

For context, by maintaining the base budget redevelopment contribution at the 2021 levels a total of \$25M would be available for renewed TIBG programs between the years of 2022-2031. Sustained financial capacity to award beyond 2021 would enable the TIBG supported programs to be re-opened and would allow new projects to start as early as 2018.

Given the transformative performance results experienced in the first five year TIBG program, staff believes that the financial return on the City's investment supports the renewed long-term financial model. The benefits of a long-term financial approach for redevelopment incentives are realized by both the development community and the City. Program stability for the development community reinforces better and more strategic development projects as it removes the unwarranted sense of urgency to apply as quickly as possible before the program funds are depleted. Further it enables the City to be more flexible and agile to respond to development opportunities as they arise knowing that the time horizon is not fixed to five years.

Report

Downtown CIP Background

Developed over the same period as the Downtown Secondary Plan consultations (2009-12), the Downtown Guelph Community Improvement Plan focus is on incentives that spur private sector investment in Downtown Guelph, an area of the city that had seen little private development investment over the preceding 20 years.

The small scale programs were initiated in 2010, including the Feasibility Study Grant and the Façade Improvement Grants. The larger scale programs known as the renovation grants (Minor Downtown Activation) and major grants (Major Downtown Activation) were approved through amendment in 2012.

Community Improvement Plans exist in many of Guelph's competitor municipalities, particularly around the challenges of core area investments in mid-sized cities which continue to grow through greenfield expansion areas. The cost and complexity of urban renovation projects means that projects are generally not competitive compared to suburban development forms.

The CIP contains a range of scale of programs to support initiatives that would both renovate existing buildings as well as incent major new projects. The goal is to: a) improve the downtown by encouraging existing businesses and owners to re-invest as well as land new projects and enterprises and b) to build a new economic environment in an area that has had little private investment and lagging assessment growth as a result.

A policy developed early on was that while the CIP tool does allow municipalities to incent private developments in one geographic area distinct from others, there would remain a level playing field in terms of requiring all City fees and development charges (DCs) to be paid.

The Downtown CIP was also established as a response to the provincial growth planning directions. The Downtown Secondary Plan outlines the vision of much more intensified land use in Downtown Guelph, and the CIP has been a key tool to shift the momentum and spur the transformational shift contemplated in the plans.

Brownfield CIP Background

Brownfields are abandoned, idled, or underused properties where expansion or redevelopment is complicated by real or perceived environmental contamination as a result of historical land use practices. These sites can have significant environmental, economic and social impacts on the community. However, remediation and redevelopment can result in improvements to soil and groundwater conditions, lead to job retention and creation, improve public safety and security and allow for efficient use of existing hard and soft services.

The purpose of a Brownfield Redevelopment Community Improvement Plan (CIP) is to provide financial incentives that partially offset the cost of investigation and remediation of sites with redevelopment potential and stimulate private investment in brownfields.

The City's first Brownfield Redevelopment CIP was approved in 2004 and established the following financial incentives:

- Environmental Study Grant (ESG) program
- Tax Increment Based Grant (TIBG) program
- Tax Assistance (TA) programs

A review beginning in 2010 resulted in a [new CIP](#) that was adopted in 2012. The 2012 CIP added detail and clarification to the existing programs but did not change them fundamentally.

The CIP includes provisions to monitor the outcomes of the programs and to review and update the CIP as necessary every five years.

Heritage Redevelopment Reserve Program Background

While Guelph had, on an ad hoc basis, supported early heritage projects (the Mill Lofts and Stewart Mill) through the use of tax increment based grants, the policy was formalized in 2007 following the Gummer Building fire and subsequent support of that project as the first approved under the Heritage Redevelopment Reserve Policy (HRR).

The HRR is possible through broad provisions under the Ontario Heritage Act allowing municipalities to "grant or loan" funds toward the conservation of designated heritage resources. The HRR uses the TIBG approach, looking at the pre- and post- development assessment increases created by a project to support the conservation and restoration of elements related to the designation by-law. Sites that have been supported through this policy also enter into a Heritage Conservation Easement Agreement to establish appropriate controls over the long-term protection of elements that have had public investment support.

Tax Increment Based Grant Mechanism

The Major Activation Grant program in Downtown CIP, the Brownfield CIP's TIBG program, and the HRR program all rely on the tax increment based grant mechanism. TIBGs use the increase in City taxes (tax increment) generated by an increase in property assessment as a result of the renovation to offset eligible costs

related to the project. Each of the three programs outlines different eligible costs connected to the goals of the program. The grant is the lower of the eligible costs or the tax increment for 10 years.

TIBG programs are popular among municipalities because of their low risk. There is no grant funding paid until the redevelopment project is complete, the property is reassessed, and increased taxes have actually been collected.

In 2012, Council approved a [CAFES Report #12-01](#) that set the financial and accounting parameters for the three TIBG programs with a \$33 million funding envelope. This envelope was largely committed by 2014 and the City has not been able to award large TIBGs since that time.

TIBG Programs Performance

Overall, the CIPs have been successful in incenting private development that has remediated and redeveloped brownfields, intensified downtown, conserved cultural heritage resources. The CIPs have brought about long-term fiscal, economic, social and environmental benefits as part of these incented projects. The TIBG programs are the highest value programs within the CIP and the HRR programs.

The City has awarded 17 TIBGs applying to 11 sites with estimated grants valued at \$32.5 million

Program	# Projects	Grant Value
Downtown	7	\$19.4 M
Brownfield	6	\$10.3 M
Heritage	3	\$2.8 M
Total	11*	\$32.5 M**

*Does not sum because three projects have multiple grants.

**The remaining \$500k from the original \$33M envelope is budgeted for Brownfield Environmental Study Grants.

The City investments are estimated to support (both existing and projected):

- \$316 million in construction value (9X leverage)
- \$3.4 million in increased yearly City tax revenue
- 827 residential units created
- 16,000 m² commercial floor area built or rehabilitated
- \$293 million in increased property assessment
- 29 ha of contaminated land remediated (7 sites)
- 331 estimated permanent jobs created

Additional details on the Downtown and Brownfield Redevelopment CIPs' performance, including that of the lower value CIP programs, are included in Attachments 1 and 2 respectively.

CIP and TIBG Funding Review

Both CIPs, approved in 2012 are due to be reviewed in 2017. Reviews have been initiated and include lessons from administering the CIPs over the past five years,

reviews of CIP performance data included in Attachments 1 and 2, interviews with program participants, City staff, and other municipal staff. Concurrently, staff are reviewing the funding mechanism for TIBGs with the goal of offering these programs again. The Heritage Redevelopment Reserve Policy is not a CIP and is not under review at this time, although it is affected by the TIBG funding discussion.

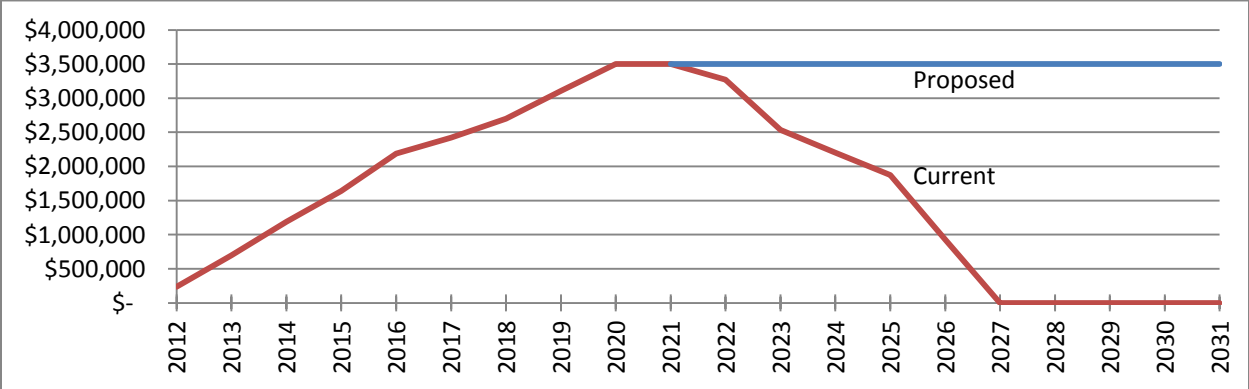
DRAFT FUTURE DIRECTIONS

1. Long Term Sustainable Funding Approach

The financial modeling approved to fund the original \$33M commitment to the TIBG program called for an incremental annual build-up from 2012 to 2021 of the base budget for contributions to the TIBG Reserve Fund to a peak amount of \$3.5M at which point the base budget would then begin to decline back to zero in 2027 (see the red line on Chart 1 below). The funding strategy was originally planned over a ten-year period but has extended to a 15-year timeline to match the expected grant expenditures; the estimated base budget peak year of \$3.5M will be reached in 2021.

Staff are recommending that funding for TIBG programs be modeled on the financial assumption that the base budget amount of \$3.5M will continue in perpetuity and subject to budgetary indexing until such time that financial incentives are considered not required for redevelopment in the City (see blue line in Chart 1 below). Further, staff are recommending that this amount be indexed annually effective 2022 to keep the redevelopment program competitive with the tax rates in effect in future years.

Chart 1 - TIBG Reserve Fund Base Budget Strategy



Reconfiguring the one-time five year program to a long-term sustainable redevelopment model better supports long-term strategic projects that will most benefit the city. Furthermore, reliability and stability in the program better supports the development community with a longer time horizon offering more flexibility in program design to meet changing needs. Sustained financial capacity beyond 2021 would enable the TIBG supported programs to be re-opened and would allow new grants to start to be committed in 2018.

2. Distinct Treatment of Downtown, Brownfield and Heritage TIBGs

In 2012, the programs were opened up on a 'first come, first served' basis. And while the \$33M budget was established through the combined estimates of uptake, with each program identified and allocated, this structure was modified as opportunity projects came to be identified through applications. This meant that the initial 'allocations' had to be adjusted between programs – with the result that Downtown projects took more of the cap than initially projected. The reallocation led to tension and confusion amongst the public and developers. Staff would like to better address this dynamic in future administration of the programs. Staff will suggest distinct funding envelopes for each of the three programs.

Funding Allocation	2012 Projection (in millions)	2018 Actuals (in millions)	Potential Future Funding Parameters
Downtown CIP	\$12	\$19	Within fixed budget
Brownfield CIP	\$16.5	\$10.5	Flexible
Heritage	\$4	\$3	
TOTAL	\$32.5	\$32.5	

Whereas the Downtown TIBG is premised as a discrete program with 5-year program iterations, and used to incent specific redevelopment goals, the Brownfield program does not have the same discrete 5-year focus and is viewed as open to address ongoing community benefits of addressing site contamination issues in the city. That is, while remediation and redevelopment of brownfield sites results in increased tax revenue from previously under-utilized or abandoned properties, the fundamental benefit is how the program mitigates potential risk to groundwater resources, reduces risks to human health and the environment, and enhances the City's social well-being.

Accordingly, additional flexibility is proposed for the Brownfield TIBGs that would enable the City to support valuable projects on a continuous basis within certain financial parameters. TIBGs would continue to be reviewed by staff and awarded on a case-by-case basis and recommended for approval by Council.

Staff suggest that Downtown grants be evaluated in a competitive framework such that grants are allocated to the best projects within a specific annual 'envelope'. Staff are considering an annual call for proposals with projects to be evaluated against clear evaluation criteria and then brought to Council for approval.

3. Review of Downtown CIP Targets and Emphasis

Given the investment environment in 2012, the eligibility requirements for the first tranche of Downtown TIBG funding were wide open – all types of land uses were supported. The Downtown Secondary Plan places a significant emphasis on creating new downtown residential development, and as there had been no privately developed residential projects over the previous two decades, these were seen as equally important to other development types such as employment or commercial projects.

With the success of the first five years in the residential market, the recalibration of efforts towards employment is under consideration. While there have been smaller successes, there has not been significant new office space created in downtown as yet (the majority of the 16,000 m² of commercial supported by CIPs was retail and service space). And, with recent announcements such as The Co-operator's future relocation out of the downtown, this sector, as well as the retail sector, is much less predictable despite ongoing and future public investments in transit, parking and the rail corridor.

Although value of downtown residential real estate has increased dramatically since 2012, development costs have increased as well. Development industry stakeholder interviews as well as independently commissioned research shows that there is still shortfall in market values to make downtown residential projects truly viable. Accordingly, staff are considering a reduction or phase out to grant amounts for residential development but sustaining the current scale of the program for commercial and office development.

4. Late payments of Development Charges

A key insight from stakeholder interviews, and the most fundamental critique of the TIBG mechanism, is how late the benefits/payments come in the project's development timeline. Grants earlier in the timeline would be more impactful to the proponents, per City dollar invested. One potential revision under consideration is allowing TIBG grant recipients under all three programs to have all or a part of their Development Charges (DCs) deferred up to the amount of eligible costs within the grant programs. DCs would be recovered with interest through the TIBG payments.

5. Brownfield Program Refinements

Staff are considering amending the Environmental Study Grant program to allow greater flexibility in how applicants can use the \$30,000 per property maximum grant. Other minor administrative changes will be considered.

Next Steps

Revisions to CIPs follow the same Planning Act process as Official Plan amendments. Subject to Council feedback, the next step will be to formally present

proposed revisions at a statutory public meeting of Council in March, and for a decision in May. Concurrent with the recommended approval of CIP revisions in May, the recommended sustainable TIBG funding model will be presented to Council for endorsement.

Financial Implications

The financial modeling approved to fund the original \$33M commitment to the TIBG program called for an incremental annual build-up of the base budget for contributions to the TIBG Reserve Fund to a peak amount of \$3.5M at which point the base budget would then begin to decline back to zero. The funding strategy was originally planned over a ten-year period but has been stretched to fifteen years to match the TIBG program, it's estimated that this base budget peak year will be reached in 2021.

The proposed revisions to the CIP programs hinges on moving the financial commitment for redevelopment from a one-time TIBG program to a long-term sustainable redevelopment incentive program. Staff are recommending that funding for TIBG programs be modeled on the financial assumption that the base budget amount of \$3.5M (to be reached in 2021) will continue in perpetuity until such time that financial incentives are considered not required for redevelopment in the City. Further, staff are recommending that this amount be indexed annually effective 2022 to keep the redevelopment program competitive with the tax rates in effect in future years.

For context, by maintaining the base budget redevelopment contribution at the 2021 levels, a total of \$25M would be available for renewed TIBG programs between the years of 2022-2031. Sustained financial capacity to award beyond 2021 would enable the TIBG supported programs to be re-opened and would allow new projects to start as early as 2018.

Consultations

In support of the Brownfield CIP review, key stakeholders who have had direct experience with the programs including City staff and program applicants were interviewed. Six interviews were conducted and two emails were received.

Downtown stakeholders were interviewed and an online survey was undertaken, both for existing applicants and the downtown business community as a whole.

The key stakeholders have been informed of this report coming to Council and will be informed of further meetings of Council.

Corporate Administrative Plan

Overarching Goals

Innovation
Financial Stability

Service Area Operational Work Plans

Our Resources - A solid foundation for a growing city

Attachments

ATT-1 Downtown CIP Performance Monitoring 2010-2017
ATT-2 Brownfield Redevelopment CIP Performance Monitoring 2012-2017

Departmental Approval

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