Intensification Incentive Discussion Paper

Date	April 21, 2021
To	Executive Committee
From	City Planning & Community Development
Service Area	Office of Executive Director (City Planning & Community Development)
Item No.	EX21-34

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Authorize Administration to proceed with stakeholder consultation by the end of Q3 on the following options as outlined in this report and Appendix A:
   - Development Charge Rebate;
   - Choice of Tax Increment Equivalent Grant or Tax Exemption; and
   - Annual Tax Increment Equivalent Grants Covering Eligible Project Costs.

2. Instruct Administration to bring a report to City Council by the end of Q4, 2021 that provides the results of stakeholder consultation, further financial analysis and a recommended incentive policy for adoption.

3. Approve these recommendations at its meeting on April 28, 2021.

ISSUE

Since 2015, the City of Regina (City) has seen modest cumulative intensification and City Centre growth rates and has observed 752 underutilized sites throughout the city in the Underutilized Land Inventory Analysis conducted in 2018. Communication with stakeholders has identified barriers to growth in the intensification area and core. An Intensification Incentive Discussion Paper (Discussion Paper) was completed to explore options and implications for an intensification-based incentive that would support intensification and development on underutilized sites while minimizing the financial impact on taxpayers.

IMPACTS

Financial Impact

There is no direct impact with this report. Further analysis of financial implications will be undertaken prior to the development of a recommended incentive policy.

Municipal Tax Increment

A municipal tax increment can be described as the difference between the municipal portion of taxes on a property before new development and the taxes after new development. Each of the three incentive options recommended for stakeholder consultation (Appendix B) use municipal tax increments to fund incentives to lessen the financial impact on taxpayers. The municipal tax increment is calculated by subtracting the pre-development amount of municipal taxes on a property from the post-development amount. This calculation ensures that only the portion of municipal taxes attributable to new development is used to fund incentives. The remaining portion of municipal taxes (i.e. the pre-development amount) is directed to the City's general tax revenue accounts to keep the tax base whole, subject to the risk noted below.

Before adopting an incentive policy funded through municipal tax increments, further financial analysis will be needed to understand how re-directing tax revenue growth on a property (i.e. municipal tax increments) from general tax revenue accounts to an incentive program reserve may impact the mill rate. Yearly tax revenue growth is needed to fund municipal services. By re-directing tax revenue growth, there is a risk that the City would not receive the level of additional tax revenue growth it otherwise would, which may put pressure on the mill rate. However, the amount of tax revenue growth re-directed to fund an incentive program would be limited to properties within the program target area (Appendix C).

There is no financial impact on the education portion of property taxes. Education property taxes are collected by municipalities on behalf of the Government of Saskatchewan (Province) and paid to the provincial government's General Revenue Fund. The tax increment that is intended to fund incentive programs or repay incentive amounts into a program reserve, is based on the municipal portion of property taxes only.

Resources

It is anticipated that Option #2 will require minimal resources to administer. Anticipated program administration entails issuing a rebate equal to the paid Intensification Levy out of the program reserve. Paying the rebates back into the program reserve through municipal tax increments would be a new practice for the City, which would require an additional level of effort to establish procedures for this new practice.

Option #5 and Option #7 require more resources to administer. Anticipated resources to administer each of these options are estimated to be 0.5 of a full-time equivalent (FTE) from the City Planning & Community Development Division and 0.5 of an FTE from the Financial Strategy & Sustainability Division. The estimated resources are slightly less than those needed to administer the Housing Incentive Policy (HIP), as uptake for the future incentive is not anticipated to exceed that of the HIP.

Policy and or/ Strategic Impacts

The Discussion Paper aligns with Strategic Action 3-3, under Goal 3 – Financial, from the 2019 Underutilized Land Improvement Strategy (ULIS):

- 3-3 – Review incentive program options identified in the Underutilized Land Study [and others…], research their effectiveness, applicability to our community, and other considerations to inform incentive programs for defined areas, specific types of underutilized lands, or city wide.

Incentives to encourage intensification in targeted established areas of the city is supported by several policies from *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP), related to long-term growth, intensification, City Centre growth and sustainability and others. Some of the key policies from Section C – Growth Plan include:

- <u>Goal 1 – Long-Term Growth</u>
  Ensure that sufficient developable land is protected for future city growth
    - Policy 2.3 – Direct at least 30 per cent of new population to existing urban areas as the City's *intensification* target
- <u>Goal 2 – Efficient Servicing</u>
  Maximize the efficient use of existing and new infrastructure
    - Policy 2.4 – Make use of residual capacity of infrastructure in existing urban areas
- <u>Goal 3 – Intensification</u>
  Enhance the city's urban form through intensification and redevelopment of existing built-up areas.
    - Policy 2.7 – Direct future higher *density intensification* to the CITY CENTRE, existing URBAN CENTRES and CORRIDORS and adjacent INTENSIFICATION AREAS where an adequate level of service and appropriate intensity of land use can be provided
    - Policy 2.9 – Direct at least 10,000 new residents to the CITY CENTRE, which will accommodate the city's highest population and employment densities
    - Policy 2.10 – Prepare an *intensification* development strategy, which addresses the following:
        - Policy 2.10.3 – Incentives for encouraging *intensification* development

Encouraging intensified development opportunities in target areas is also consistent with economic development policy from Section D10 – Economic Development from the OCP:

- <u>Goal 2 – Economic Growth</u>
  Optimize the economic development potential of Regina, the region and the Province of Saskatchewan
    - Policy 12.5 – Establish and implement mechanisms to expand and diversify the economy, promote the attractiveness of Regina and the region as a place to live, invest, do business and visit, by:
        - Policy 12.5.1 – Identifying and leveraging opportunities to expand

existing industries

- Policy 12.5.2 – Identifying and encouraging the development of new economic opportunities

Environmental Impacts

Encouraging the remediation and redevelopment of brownfield sites helps address potential health and safety hazards presented by contaminated sites within the program's target area (Appendix C). An objective of the future incentive policy will be to encourage intensified development and development on underutilized sites, such as brownfield sites.

The City has a community goal of achieving net zero emissions and sourcing of net zero renewable energy by 2050. In support of this, City Council has asked Administration to provide energy and greenhouse gas implications of recommendations so that they can evaluate the climate impacts of their decisions. Intensification is known to have positive impacts related to energy consumption and greenhouse gas emissions as it reduces travel distances and tends to increase active transportation and use of transit.

Risk/Legal Impacts

Tax exemption-based incentives require approval from City Council. If exemptions are beyond one-year, a tax exemption agreement is required. The form of the agreement and list of properties eligible for the exemption must be approved through a bylaw.

The three recommended incentive options do not use tax increment financing in the same manner as prescribed in subsections 281.1 and 281.2 of *The Cities Act*, which would require a bylaw to be approved by City Council. Funding agreements must be established to govern the terms and conditions for the eventual incentive policy.

There are no other impacts related to this report.

OTHER OPTIONS

Alternative options include:

1. Authorize Administration to proceed with stakeholder consultation on other incentive options mentioned in the Discussion Paper. Recommended options were based on the outcome of impact/effort analysis and the goal of facilitating focused consultation. Council may direct Administration to consult on alternate options described in the Discussion Paper.
2. Refer the Discussion Paper back to Administration. If Council has specific concerns with the options described it may refer it back to Administration to consider further research or recommendations to be considered by Executive Committee or brought back directly to City Council. Referral of the report will delay consultation and development of an incentive policy for approval by Council.
3. Deny the recommendations. Should Council have concerns about development of an intensification incentive policy, it may deny the recommendations and direct

discontinuation of work on a policy.

COMMUNICATIONS

Upon Council approval, consultation with stakeholders on the three recommended incentive options will occur. Representatives from Regina's land and economic development communities, as well as the development industry will be part of the consultation process.

Stakeholder engagement is targeted to be complete by the end of Q3, 2021. The three recommended inventive options in this report will serve as a starting point for consultation; however, during engagement sessions, stakeholders may also provide incentive options or considerations that were not included in the Discussion Paper which may help form the final recommended policy.

DISCUSSION

Background
The OCP sets forth a residential intensification target that directs 30 per cent of new population growth to existing urban areas and a City Centre growth target of 10,000 new residents over the lifespan of the OCP. Since the adoption of the OCP in 2013, the cumulative residential intensification rate has been 12.2 per cent and cumulative City Centre population growth has been 74 residents.

The 2018 Underutilized Land Study (ULS) indicates that there are 752 underutilized sites in Regina. Underutilized sites are considered brownfields, bluefields (vacant institutional sites), surface parking lots and vacant sites or buildings. The Underutilized Land Inventory completed as a part of the ULS indicates that approximately 44 per cent of underutilized sites are located within the City Centre and 22 per cent in the North Central Neighbourhood. The inventory notes a distinct concentration of underutilized sites in and around the Heritage Neighbourhood. Since the start of 2021, six residential demolition permits have been approved within the North Central and Heritage neighbourhoods.

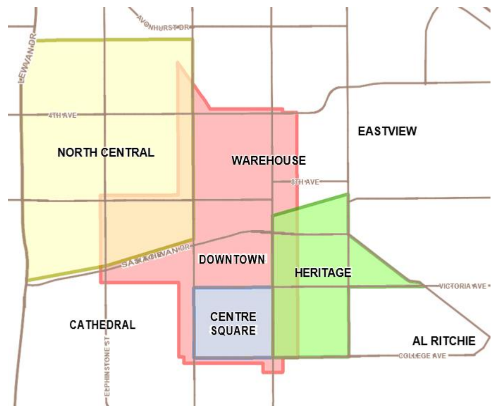
The Intensification Levy (IL) was implemented on October 1, 2019. The IL is a type of development charge mandated under the *Administration and Calculation of Servicing Agreement Fees and Development Levies Policy*. The IL requires applicants for development within established areas of the city to pay for a portion of the capital costs incurred by the City in providing the infrastructure required to support growth, including facilities and services directly or indirectly associated with a proposed development.

The process for developing the Discussion Paper involved:
- Review of incentive options available to municipalities through legislation;
- Scan of inherent standards of best practice for incentive programs with similar objectives, including case studies on notable incentive programs from across Canada; and
- Identification of eight incentive options for Regina, followed by analysis to inform the

three recommend options for stakeholder engagement.

Recommended Incentive Policy Options for Stakeholder Consultation
A targeted incentive policy has the potential to fulfill the following objectives:
1. Reduce the number of underutilized sites within the City Centre area (includes: Centre Square, Downtown and portion of Warehouse neighbourhoods), North-Central and Heritage neighbourhoods;
2. Bring the City closer to the intensification target of directing 30 per cent of new population growth to existing urban areas over the lifespan of the OCP; and
3. Move the City closer to achieving the OCP target of 10,000 new residents in the City Centre over the lifespan of the OCP.

In addition to the objectives above, a targeted incentive encouraging intensification and development on underutilized sites may serve to offset the cost of the Intensification Levy and other costs specific to developing in established areas of the city.



<u>Target Areas</u>
The Discussion Paper recommends a program target area consisting of the City Centre area, North Central and Heritage Neighbourhoods (Appendix C). Any development within the program target area that is on an underutilized site and/or results in intensification may be eligible for an incentive. This incentive is not intended to be limited to a single land-use class such as commercial, residential or industrial. The zoning districts within the program target area will dictate which land-use classes and land-use types (e.g. Retail Store/Shop) the incentive could apply to.

<u>Rationale for Recommended Incentive Options</u>
The three recommended incentive options for stakeholder engagement were selected after comparing each option’s levels of risk, anticipated impact on achieving desired objectives (i.e. reduction in underutilized sites) and anticipated effort to administer an incentive program. Below, the rationale behind each recommended option and specific financial impacts are detailed. Further specifics on each option can be found in the Discussion Paper or Appendix B.

Option #2- Development Charge Rebate
A rebate of the Intensification Levy (IL) may free up capital for developers while having a minimal administrative impact. Applicants would still pay the IL before their project commenced and would be provided with a rebate after their project was completed.

Option #5 – Annual Tax Increment Equivalent Grants Covering Eligible Project Costs
This option may compensate developers for eligible costs that come with developing in established areas of a city or on underutilized sites (e.g. brownfield remediation), which may

encourage development on these types of sites. Issuing yearly grants over a long period may be particularly appealing for developers who wish to lease or rent space within their new development.

Option #7 – Choice of Tax Increment Equivalent Grant or Tax Exemption
Like the previous two options, the incentive may free up capital for developers. However, this option gives developers a choice of the incentive that they wish to select. Developers wishing to rent or lease their new development may find a tax exemption more attractive, while developers who wish to sell their new development may prefer a lump sum grant.

This option uses a design criteria scorecard that is based on policy objectives from the OCP to determine final incentive amounts. This means the scorecard can be customized to further incentivize developments that contain elements that link to OCP policy (e.g. extra points awarded if a development has a bike lock-up facility).

Financial Requirements

Option # in Discussion Paper:	**Option #2**: Development Charge Rebate	**Option #7:** Choice of TIEG or Tax Exemption	**Option #5:** Annual TIEG Covering Eligible Project Costs
Short-Term Impact to Taxpayers:	A one-time investment of $100,000	A one-time investment of $500,000	$0
Long-Term Impact to Taxpayers:	Subsequent municipal tax increments for a property that receives an incentive are directed into the incentive program reserve each year until the full amount of the incentive is recouped. No additional tax dollars should be required after initial one-time investment to establish the program reserve.		Through the incentive term, applicants pay full taxes each year. Once taxes are paid, the City uses the municipal tax increment to finance the yearly TIEGs.
Impact on Tax Revenue:	During the period in which the cost of the incentive is being recouped into the program reserve using the municipal tax increment, the portion of municipal tax revenue equal to pre-development municipal property taxes is allocated to the City's general tax accounts. This ensures that the City receives the same amount of taxes that it did on the property before new development occurring, minimizing the impact on the City's tax base.		The amount of tax revenue equal to the pre-development municipal taxes is directed to general tax revenue accounts, minimizing the impact on the City's tax base.
Risks:	Option #2 and Option #7 pose a risk if each reserve is fully expended due to substantial program uptake before program reserves can be replenished through municipal tax increments. If this occurs, additional funds over and above the initial start-up/seed investment may need to be allocated into a program reserve to cover incentive payments in the initial years of either program. Any additional budget allocations could be recouped using the municipal tax increment for projects that received the incentive after the incentive is recouped itself. There is a risk that the City would not receive additional		There is a risk that the City will not receive additional tax revenue growth that it otherwise would have, which could put pressure on the mill rate.

Option # in Discussion Paper:	**Option #2:** Development Charge Rebate	**Option #7:** Choice of TIEG or Tax Exemption	**Option #5:** Annual TIEG Covering Eligible Project Costs
	tax revenue growth that it otherwise would have, which could put pressure on the mill rate.		

Upon Council approval, consultation with stakeholders can be initiated. Stakeholder consultation will entail asking stakeholders for feedback on the specific incentive options, which will serve as a starting point for discussion and may lead to stakeholders identifying incentive options not considered by Administration or revisions to the specifics of identified options (e.g. incentive term).

Through engagement, it is anticipated that a preferred incentive option will emerge which will help form the final recommended policy. The preferred inventive option may be one of the Discussion paper options, a new option identified by stakeholders during the consultation or a combination of an option from the Discussion paper with variations to components of the program (e.g. eligible development types), as suggested by stakeholders.

A recommended policy will be drafted based on the findings of the consultation and presented to City Council.

DECISION HISTORY

The Underutilized Land Improvement Strategy (ULIS) was approved by City Council on July 29, 2019 (CR19-72). The ULIS contains a strategic action mandating the exploration of incentive options. Actions within the ULIS that require budgetary commitment must be approved by City Council before being enacted.

The recommendations in this report require City Council approval.

Respectfully Submitted,

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Respectfully Submitted,

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ATTACHMENTS

Appendix A - Intensification Incentive Discussion Paper
Appendix B - Summary of Incentive Options
Appendix C - Recommended Program Target Area