Agenda – Council – February 24, 2022

Report – Executive Policy Committee – February 16, 2022

Item No. 7 Tax Increment Financing Policy

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 16, 2022, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service, as amended, and submitted the following to Council:

1. That the Tax Increment Financing Policy, attached as Appendix A, be approved.

2. That the "Heritage and Economic Development Incentive Program", attached as Appendix B, be approved.

3. That the Director of Legal Services and City Solicitor be instructed to prepare a By-law for the proposed Heritage and Economic Development Incentive Program in accordance with this report and bring same directly to Council for enactment.

4. That the Chief Administrative Officer or designate be directed to meet with representatives of the Manitoba School Board Association to explain the City's TIF policy and to clarify that the legislative responsibility to consult with school boards regarding use of Tax Increment Financing resides with the Province of Manitoba rather than the City of Winnipeg.

5. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report – Executive Policy Committee – February 16, 2022

DECISION MAKING HSITORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 16, 2022, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service, with the following amendment:

- That the following new Recommendation 4 be added and renumber the remaining recommendation accordingly:

    4. That the Chief Administrative Officer or designate be directed to meet with representatives of the Manitoba School Board Association to explain the City's TIF policy and to clarify that the legislative responsibility to consult with school boards regarding use of Tax Increment Financing resides with the Province of Manitoba rather than the City of Winnipeg.

and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: Tax Increment Financing Policy

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Dryburgh	M. Jack	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

This report seeks approval of a Tax Increment Financing Policy (the "Policy") to provide financial support funded from incremental municipal property taxes for the following developments which are defined in greater detail in the Policy attached as Appendix A:

1. Affordable Housing Development;
2. Heritage Building restoration and rehabilitation;
3. Economic Development Initiatives which include new or expanded businesses, redevelopment of Surface Parking Lots in the Downtown and redevelopment of Brownfield Sites; and
4. Transformative Developments involving construction or redevelopment of significant privately-owned buildings or public infrastructure investments undertaken in a designated area of the City (similar to what was done in the Sports, Hospitality Entertainment District: SHED).

The Policy provides grants of 80 percent of the annual incremental municipal property taxes for:

- up to 10 years for Economic Development Initiatives, as described above, and Heritage Buildings; and
- up to 25 years for Affordable Housing and Transformative Developments.

The Policy limits the total value of grants available to support Affordable Housing Developments to $50 million including $20 million for projects situated Downtown and $30 million for projects situated outside of the Downtown.

The Policy also limits the total value of grants available to support Economic Development Initiatives and Heritage Buildings (Items 2 and 3 above) to $20 million including $10 million for projects situated Downtown and $10 million for projects situated outside of the Downtown.

This report also includes a proposed program entitled "Heritage and Economic Development Incentive Program" to operationalize the financial support for developments in 2 and 3 above. A program and by-law to operationalize the financial support for the affordable housing component (Item 1 above) will be provided in a separate administrative report for Council's consideration in the spring.

RECOMMENDATIONS

1. That the Tax Increment Financing Policy, attached as Appendix A, be approved.

2. That the "Heritage and Economic Development Incentive Program", attached as Appendix B, be approved.

3. That the City Solicitor /Director of Legal Services be instructed to prepare a By-law for the proposed Heritage and Economic Development Incentive Program in accordance with this report and bring same directly to Council for enactment.

4. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

In November, 2021 Council approved The *Economic Response and Recovery Plan*. This plan directed the Public Service to prepare a Tax Increment Policy for Council's consideration by March, 2022.

Council approval is required for a Tax Increment Financing Policy and for a by-law for the proposed Heritage and Economic Development Incentive Program.

IMPLICATIONS OF THE RECOMMENDATIONS

If the Policy is approved the Public Service will prepare a By-law for Council's consideration for the Heritage and Economic Development Incentive Program to operationalize the Tax Increment Financing support contained in the Policy.

HISTORY/DISCUSSION

Background

Tax Increment Financing (TIF) is a method of financing public improvements, development and revitalization projects through future property tax increases.

Under a TIF arrangement, once a development is complete, property taxes are paid by the property owner and in turn the increase in the municipal portion of the property taxes resulting from the new development above the "base year" taxes (which is the year of Council approval of the TIF) are granted back to the property owner up to a maximum amount not to exceed a specified number of years. These increases are referred to as the "incremental municipal property taxes".

Previous City of Winnipeg TIF programs with grant terms of up to 25 years have been primarily used to support residential development in the Downtown and public infrastructure investments in the Sports, Hospitality and Entertainment District (SHED) also in the Downtown. These programs have also received financial support from the Province of Manitoba through a

matching TIF grant from the incremental education portion of property taxes as well as other funding sources.

Edmonton and Hamilton currently offer TIF programs that provide grants of incremental municipal property taxes of between 5 and 9 years to support housing development as well as redevelopment of other buildings along targeted commercial corridors and downtown.

The Province of Manitoba currently offers the *Manitoba Capital Works Incentive Program* which provides grants of incremental education property taxes from the development of new and expanded businesses for up to 20 years or when education property taxes are eliminated, whichever is sooner. This program requires developments to secure a minimum of $10 million of capital investment and create a minimum of 10 new full-time jobs.

TIF Policy

Guiding principles:

- TIF support must only be provided if the proponent can demonstrate a clear need for it in order to proceed with the development. This is the "but for" principle of TIF.
- TIF support must be based on a material return on investment to the City from the development as defined in section 4.7 of the Policy (attached in Appendix A).
- TIF must support City building objectives in planning documents such as *Our Winnipeg 2045* (subject to third reading by Council), *Complete Communities 2.0*, *Climate Action Plan* and *The Economic Response and Recovery Plan.*
- TIF support must only be provided after property taxes on the development are paid and all TIF agreement conditions are met.
- A development must secure a material financial contribution from other levels of government and/or registered charitable organizations in order to qualify for TIF support from the City of Winnipeg.

Eligible developments under The Policy are as follows:

1. Affordable Housing Development

Affordable housing developments require a minimum of 30 percent of all rental units within a development to be rented below 80 percent of the median market rent as determined by Canada Mortgage and Housing Corporation. Developments that meet this affordability threshold are eligible to receive grants equal to 80 percent of the annual incremental municipal property taxes up to:

- 25 years for developments inside the Downtown or one of the City's Housing Improvement Zones (HIZs);
- 15 years for developments located elsewhere in the City,
- Up to 10 additional years (25 years in total) for developments located outside Downtown or the HIZ's if they involve a non-profit housing provider that is providing priority housing for a vulnerable population as described in the *National Housing Strategy.*
- Properties located in the area covered by the SHED TIF Zone by-law 98/2012 are not eligible for support under The Policy.

Grants for individual affordable housing developments will be reviewed and approved based on the estimated incremental municipal property taxes generated from the entire development.

Affordable housing developments can qualify for grants of up to $22,500.00 per affordable housing unit based on the TIF support contained in the Policy, the estimated assessed value of an affordable housing unit and current City mill rates. However, the actual grants for individual affordable housing developments will be based on the actual assessed values and resulting incremental property taxes generated from the development.

A limit of $50 million of incremental municipal property tax grants is proposed for affordable housing developments; $20 million for developments inside of the Downtown and $30 million for developments outside of the Downtown. To achieve these limits, the Public Service will review grant applications on a first come first serve basis. As applications are approved, the resulting grants will be subtracted from these respective grant limits. Once it is determined that no further grants may be approved without exceeding these limits, no further grants will be approved.

Additional capital subsidies for rental housing targeted to lower income households and vulnerable populations will be available through a proposed *Affordable Housing Now* program which will be recommended in a separate administrative report for Council's consideration in the spring. This program would provide cash grants and permit rebates of up to $10,000.00 per unit for construction of affordable rental housing in addition to the TIF support in The Policy.

2. Heritage Buildings

Rehabilitation and restoration of Heritage Buildings that are on the list of historical resources under By-Law 55/2014, and located in the City of Winnipeg (excluding the SHED district) are eligible to receive grants equal to 80 percent of the annual incremental municipal property taxes for up to 10 years under the Policy. Eligible redevelopment of these properties may include any project that is permitted under existing zoning by-laws and any applicable local area plans.

3. Economic Development Initiatives

Economic Development Initiatives including a new or expanded business, redevelopment of a Surface Parking Lot in the Downtown or redevelopment of a Brownfield Site are eligible to receive grants equal to 80 percent of the incremental municipal taxes up to:

- 10 years if the property is located Downtown,
- 5 years for properties located outside of the Downtown, excluding Greenfield areas of the City as defined in *Complete Communities 2.0* and properties located in the SHED.

A new or expanded business is defined as a for-profit or not-for-profit corporation that creates a minimum of 10 new full-time jobs after the development is complete and supports economic growth objectives that align with *OurWinnipeg* 2045, *Manitoba's Economic Growth Action Plan* or a similar provincial economic development plan in the future.

Surface Parking Lots are properties located Downtown that primarily provide parking for motorized vehicles. Eligible redevelopment of these properties may include any project that is permitted under existing zoning by-laws and any applicable local area plans.

Brownfield Sites are former commercial or industrial sites that are underutilized and that may have soil or groundwater contamination that require remediation in order for the site to be redeveloped. *Complete Communities 2.0*, Winnipeg's *Climate Action Plan* and the *Employment and Commercial Lands Study* all recommend that the City develop a Brownfield land

Redevelopment Strategy. Once this Strategy is developed and if approved by Council, Brownfield Sites will become eligible for TIF support under the proposed *Heritage and Economic Development Incentive Program*.

All Economic Development Initiatives noted above must secure a minimum $10 million of capital investment from non-government sources to qualify for TIF support.

A maximum of $20 million of incremental municipal property tax grants is proposed for Heritage Building rehabilitation and Economic Development Initiatives under The Policy. This includes $10 million for developments situated Downtown and $10 million for developments situated outside of the Downtown.

Details of a proposed "Heritage and Economic Development Incentive Program" which operationalizes TIF support for these items is attached as Appendix B to this report. This program proposes a maximum grant of $2 million per development. This program also proposes that the Public Service be given delegated authority to approve grants of up to $1 million per development with Council approval required for all grants exceeding $1 million.

4. Transformative Developments

Transformative Developments include development or redevelopment of significant private buildings or public infrastructure investments undertaken in a designed area similar to what was undertaken in the SHED district.

If a development under this section of the Policy includes the construction of a new building or redevelopment of an existing building, the owner of the development is eligible to receive an annual grant of 80 percent of the annual incremental taxes from the development to a maximum of 25 years.

If a development under this section of the Policy is a public infrastructure investment undertaken in a designated area within the City of Winnipeg, the City of Winnipeg will set aside 80 percent of the annual incremental taxes to a maximum of 25 years from all of the properties located in the designated area to pay for the public infrastructure.

To qualify for grants or payments under this section of the Policy the development must be situated:

- Downtown;
- Reinvestment Areas of the City of Winnipeg described in *Complete Communities 2.0; or*
- Another area within the City of Winnipeg (excluding the SHED) that is facing significant barriers to redevelopment, as determined by Council.

The project must also involve a minimum of $100 million of capital investment from all sources to qualify as a Transformative Development. Projects that may qualify as Transformative Developments under the Policy include but are not limited to redevelopment of the Hudson Bay Building Downtown as well as Portage Place Mall.

There is no prescribed grant limit proposed for Transformative Developments. However, any TIF support for developments under this category must be reviewed and approved by Council via an administrative report from the Public Service.

Goals of the Policy

A goal of the Policy is to support construction of 1,500 affordable housing units. Rehabilitation of 2 to 4 heritage buildings based on the outcomes from previous city programs is also a goal of the Policy. It is difficult to project outcomes for the remainder of developments to be supported under the Policy as these will largely be determined by prevailing market conditions and the level of financial support from other levels of government.

FINANCIAL IMPACT

Financial Impact Statement

Date: January 12, 2022

Project Name:

Tax Increment Financing Policy

First Year of Program **2025**

	2025	2026	2027	2028	2029-2060
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants					
Reserves, Equity, Surplus					
Other					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 704,700	$ 1,423,400	$ 2,156,500	$ 2,904,300	$ 62,693,200
Less: Incremental Revenue/Recovery	880,800	1,779,300	2,695,700	3,630,400	78,366,500
Net Cost/(Benefit)	$ (176,100)	$ (355,900)	$ (539,200)	$ (726,100)	$ (15,673,300)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (176,100)	$ (355,900)	$ (539,200)	$ (726,100)	$ (15,673,300)

Additional Comments:

Direct costs represent the estimated tax increment financing grants to be paid between 2025 and 2060. Grants are limited to 80% of incremental municipal property tax generated from eligible developments under The Policy to a maximum of $70 million. The incremental revenue/recovery represents the estimated incremental property taxes generated by The Policy. It is estimated the City will retain $17.5 million of total incremental municipal property taxes over the entire term of grants from 2025 to 2060. Approved developments are expected to generate $11.1 million of property tax revenue for the City annually after the last grant is paid in 2060.

Estimates were based on the 2021 assessment roll with 2% annual rate of inflation. Final assessment values and related taxes can only be calculated upon completion of projects. As such, the amount and timing of municipal taxes arising from The Policy are subject to many different variables and may vary from these estimates.

"electronically approved by J. Peters"

Jocelyn Peters, CPA, CGA
Manager of Finance and Administration

CONSULTATION

This Report has been prepared in consultation with:

Legal Services (as to legal issues)
Property, Planning and Development
Assessment and Taxation

OURWINNIPEG POLICY ALIGNMENT

Alignment with OurWinnipeg 2045 (subject to third reading by Council):

- 3.6- Prioritize the Downtown by leveraging private and public investments, including housing, entrepreneurship, arts, entertainment, and tourism, that advance its status as an economic driver.
- 3.7 -Facilitate the economic viability of heritage conservation.
- 4.4 - Enable collaborative partnerships that provide a continuum of existing or new affordable housing, making use of municipal supports such as fiscal, regulatory and measurement tools.

6.4 - Collaborate with government bodies, including Indigenous, Federal, and Provincial governments, and stakeholders in pursuit of the context-sensitive remediation and redevelopment of brownfield lands.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

4.1 – Increase strategic infill development that provides access to and capitalizes on existing and planned corridors with frequent transit service.

4.4 – Support redevelopment of former commercial and industrial lands into active use.

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Affordable Housing Life Pole and Goal 2: The City actively plans for and partners in affordable housing.

SUBMITTED BY

Department: Office of the Chief Administrative Officer
Prepared by: Matt Dryburgh, Senior Manager of Economic Development and Policy
Date: January 26, 2022
File No:

Attachments:

Appendix A: TIF Policy

Appendix B: Heritage and Economic Development Incentive Program

Appendix C: Map