Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	June 16, 2021
SUBJECT/REPORT NO:	Light Rail Transit Investment and City of Hamilton Financial Incentive Programs (FCS21066) (City Wide) **(Outstanding Business List Item)**
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brian McMullen (905) 546-2424 Ext. 4549
SUBMITTED BY: **SIGNATURE:**	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department

COUNCIL DIRECTION

The General Issues Committee (GIC), at its meeting of June 2, 2021, provided direction as follows:

> Staff be directed to report back to GIC regarding the net operating costs after the 18 buses on the B-line have been removed, eliminating Development Charge Exemptions, fare revenue and the Hamilton Tax Increment Grant Program, and other incentives, that the City may build in to credit the cost of the LRT operations and maintenance.

Report FCS21066 deals with the financial incentives' content of the motion while a companion report on the GIC agenda deals with the remaining components of the motion.

INFORMATION

The City of Hamilton provides a number of financial incentive programs that advance the 2016-2025 Strategic Plan priority of Economic Prosperity and Growth. Economic Development Division staff of the Planning and Economic Development Department and Financial Planning, Administration and Policy Division (Finance) staff of the Corporate Services Department provide regular reports to Council through standing committees on these financial incentive programs (including development charges reductions and exemptions).

Report FCS21066 provides information on select City of Hamilton financial incentive programs including Hamilton Tax Increment Grant Program (HTIGP), Hamilton Downtown, Barton and Kenilworth Multi Residential Property Investment Program (HDBKMPIP or Property Investment Program), Cash-in-lieu of Parkland Dedication Incentives and Development Charge Reductions and Exemptions.

The General Issues Committee, at its meeting of March 24, 2021, received Report PED21035, Five-year Review of the Downtown and Community Renewal Community Improvement Plan and Associated Financial Incentive Programs.

The General Issues Committee, at its meeting of May 19, 2021, received Report PED21095, Status of the Hamilton Downtown, Barton/Kenilworth Multi-Residential Property Investment Program and Other Commercial Districts and Small Business Section Initiatives.

Audit, Finance and Administration Committee, at its meeting on June 3, 2021, received Report FCS21030, Parkland Dedication Reserve Status Report as at December 31, 2020.

Audit, Finance and Administration Committee, at its meeting on June 17, 2021, will receive Report FCS21047, Development Charges (DC) Reserves Status Report as at December 31, 2020 which includes information on DC Exemptions.

Downtown and Community Renewal Community Improvement Plan and Associated Financial Incentive Programs (DCR CIP)

Financial incentive programs are provided in the City of Hamilton to businesses in commercial districts. Current programs offered under the DCR CIP provide either grants or low-interest loans which collectively promote and incentivize private sector investment in the form of new developments on under-utilized properties, improving the appearance, functionality, marketability and usability / safety of existing commercial buildings and / or attract tenants from key sectors to locate within specific areas.

Since the inception of the two programs most utilized to facilitate new development projects, the Hamilton Tax Increment Grant Program (HTIGP) and Hamilton Downtown, Barton / Kenilworth Multi-Residential Property Investment (Loan) Program (HDBKMPIP), staff notes in Report PED21035 that:

- For every tax dollar of grant money provided under the HTIGP since inception, $26 in private sector investment has been leveraged; and
- For every tax dollar of cost incurred under the HDBKMPIP for the provision of low-interest loans since inception, $46 in private sector investment has been leveraged

Table 1 provides a summary of the cost to the City of these two programs over the past five years.

Table 1
City of Hamilton
Hamilton Tax Increment Grant Program (HTIGP)
Multi-Residential Property Investment Program (PIP)
Summary for 2016 to 2020

	Total Amount	HTIGP Grant Amount	PIP Interest Amount
2016	$ 1,392,075	$ 1,010,682	$ 381,393
2017	704,055	452,774	251,281
2018	2,073,580	1,720,128	353,452
2019	1,169,509	948,314	221,195
2020	1,390,999	1,297,838	93,161
Total	$ 6,730,218	$ 5,429,736	$ 1,300,482
Average	$ 1,346,044	$ 1,085,947	$ 260,096

HTIGP, basically, provides a five-year grant in an amount not exceeding the increase in municipal taxes to applicants in the defined areas.

The Hamilton Tax Increment Grant Program (HTIGP) and Hamilton Downtown, Barton / Kenilworth Multi-Residential Property Investment (Loan) Program (HDBKMPIP) apply to locations in the City beyond the downtown and the proposed Light Rail Transit (LRT) corridor. The HTIGP eligible area includes Downtown Hamilton, Community Downtowns of Ancaster, Dundas, Waterdown, Stoney Creek and Glanbrook, the Mount Hope / Airport Gateway, Business Improvement Areas (BIAs) and those properties within the City boundary designated under the *Ontario Heritage Act*. The eligible areas for the HDBKMPIP includes Downtown Hamilton, the Barton Village Business Improvement Area (BIA) and the commercial corridors along Barton Street, east of the Barton Village BIA and along Kenilworth Avenue.

Analysis of the Hamilton Tax Increment Grant Program (HTIGP) and related return on investment (ROI) over the past five years shows that grants were approved for:

- 6 properties along the proposed LRT Route
- 14 properties within 500 metres of the proposed LRT Route
- 11 properties beyond 500 metres of the proposed LRT Route

A summary is provided in Table 2.

Table 2
City of Hamilton
Hamilton Tax Increment Grant Program (HTIGP)
Summary for 2016 to 2020

	Quantity	City Grant Amount	Development Costs	ROI: City Grant Versus Development Costs
Properties on LRT route	6	$ 980,678	$ 73,766,909	1:75
Properties within 500 metres of LRT route	14	3,607,775	159,603,449	1:44
Properties beyond 500 metres of LRT route	11	841,283	51,414,439	1:61
	31	$5,429,736	$284,784,797	1:52

These metrics show a consistent and sustained demand for incentives offered through current programs, as well as, significant private-sector investments being leveraged as a result of the programs offered.

In 2020, the Commercial Districts and Small Business (CDSB) Section, Economic Development initiated a review of the existing Downtown and Community Renewal Community Improvement Plan (DCR CIP) and its associated financial incentive programs which was presented in detail through Report PED21035 as approved by City Council on March 31, 2021.

However, CDSB staff's review also identified key issues and concerns commonly raised through stakeholder consultation which highlighted the continued importance and need for incentive programs to sustain revitalization efforts going forward due to the continued presence of significantly under-utilized buildings /properties across the eligible areas and the need to continue increasing local residential populations in or near commercial districts to support demand for local commercial businesses and services. In addition, staff also noted the emergence of specific community / City Council priorities not currently supported by existing programs including environmental sustainability and climate change, housing affordability and the potential for rising commercial vacancies as a result of the COVID-19 pandemic, issues that pose both short and long-term risks to sustained revitalization efforts in the eligible areas.

As a result, the existing Downtown and Community Renewal Community Improvement Plan (DCR CIP) was modified in Report PED21035 and has been incorporated into the Revitalizing Hamilton's Commercial Districts Community Improvement Plan (RHCD CIP) and Community Improvement Project Area (RHCD CIPA) by-laws and associated program descriptions. The Hamilton Tax Grant Program has been modified to reduce the grant amounts by one year from a five-year tax grant program to a four-year tax grant program. In addition, to address the emergence of specific community / City Council priorities not currently supported by existing programs including environmental sustainability and climate change and housing affordability, the tax grant program will provide, over the four-year period, a greater financial incentive to incorporate housing affordability and / or environmental sustainability and climate change measures into developments.

Development Charges Exemptions

Development Charges (DC) are charges that are collected to recover growth-related capital infrastructure costs required to service new development and redevelopment under the *Development Charges Act.* Through DC Background Studies and DC By-laws (By-law 19-142, as amended and By-law 11-174, as amended), development charges are established and DC credits and exemptions are approved. In addition, Council from time to time approves DC exemptions for non-profit organizations.

Over the past eight years, DC Exemptions total $202.6 M with $30 M in statutory DC Exemptions and $172.6 M in Council authorized discretionary DC Exemptions. Council has approved $99.4 M in funding which is used towards discretionary DC Exemptions. Therefore, $69.4 M in discretionary DC Exemptions and $30 M in statutory DC Exemptions remain unfunded.

The eight-year (2013-2020) summary of the DC exemptions provided by the City is included as Appendix "A" to Report FCS21066.

With Council approval of the 2020 Operating Budget Variance Report (Report FCS20069(b)), $15.1 M of the tax operating budget surplus was allocated to reduce the unfunded amount of $69.4 M. The 2021 Tax and Rate supported Budgets allocated combined funding of $17 M ($8 M Tax, $9 M Rates) to be applied to in-year DC exemptions.

DC exemptions are provided in the Downtown Hamilton CIPA through a discounted or reduced rate. Over the past five years (2016-2020) the City provided $40.1 M (or an annual average of $8 M) of these exemptions. Table 3 provides a summary. As of July 6, 2021, the DC exemptions in the Downtown Hamilton CIPA will be a 40% reduction from the full DC rate and will remain at that level unless Council directs further changes through the adoption of the ensuing DC by-law.

Table 3
City of Hamilton
Hamilton Downtown CIPA DC Exemptions
Summary for 2016 to 2020

			DC Exemption Reduction Rate	
	Quantity	Amount	Prior to July 6	As of July 6
2016	10	$ 4,891,965	85%	80%
2017	7	5,820,647	80%	75%
2018	9	493,249	75%	70%
2019	14	20,157,605	70%	60%
2020	12	8,694,113	60%	50%
Total	52	$ 40,057,579		
Average	10	$ 8,011,516		

Note: DC exemption is a 40% reduction from the full DC rate from July 6, 2021 to July 5, 2024

As DC exemptions need to be funded from non-DC sources (from existing taxpayers and ratepayers and primarily, from the property tax levy, water and sewer rates or from reserves or annual operating budget surplus allocations) any change in the Downtown Hamilton CIPA DC Exemption will not have a direct budget impact. Rather, it would bring the annual budget closer in line to being able to address in-year exemptions, as well as, pay down past unfunded discretionary exemptions.

As the pace of development increases in Downtown Hamilton, so does the amount of DC exemptions that need to be funded through other non-DC sources and existing taxpayers and ratepayers.

Through legislation passed and enacted in 2019 and 2020 (*More Homes, More Choice Act, 2019* – Bill 108 and associated legislation), the Province provided increased predictability to the development community by establishing a DC rate lock-in date connected to the related planning application. The Province now requires DCs to be locked in as of the date of the related planning application. Therefore, the length of time to see the financial effects of any change in exemption policies is extended and would affect only developments who have not yet applied for a site plan or site-specific zoning application or those who are not required to go through either application process.

Cash-in-lieu of Parkland Dedication

Under the *Planning Act*, municipalities may by by-law, require that land, as a condition of development or redevelopment of land for residential, commercial, industrial purposes and other purposes of the land, be conveyed to the municipality for park or other public recreational purposes.

Under City By-law 18-126, as amended by By-law 21-078, in lieu of requiring the conveyance of land, the City may require the payment of money to the value of the lands required to be conveyed. Parkland Dedication fees or cash-in-lieu of parkland dedication collected in 2020 amounting to $9.1 M was deposited to the Parkland Dedication Reserve.

Different rates can be approved across the municipality. Through a review in 2018 and Report PED18105, Parkland Dedication By-law Review – Large Scale Intensification, Multi-storey Residential Development, rates were amended to phase out the reduced rate of 5% of net land area for multiple dwellings in the Downtown Hamilton CIPA. Parkland Dedication By-law 18-126 established rates in the Downtown Hamilton CIPA of $2,000 per unit as of April 1, 2020, $3,500 per unit as of April 1, 2021 and $5,000 per unit on April 1, 2022.

Table 4 provides a summary of the Cash-in-lieu of Parkland Dedication collected in the Downtown Hamilton CIPA compared to the maximum allowable rates under the *Planning Act* and the resulting foregone revenue.

Any further changes to the Cash-in-lieu of Parkland Dedication rates will affect the amount collected and set aside in the Parkland Dedication Reserve to be used to develop municipal parks and recreation spaces. Any additional revenue is not available for general taxation purposes.

Table 4
City of Hamilton
Cash-in-lieu Parkland Dedication
Downtown Hamilton CIPA
Summary for 2016 to 2020

	Cash-in-lieu (CIL) Collected under By-law	Maximum CIL Allowable under Planning Act	Foregone CIL	Discount
2016	$ 172,505	$ 4,544,430	$ 4,371,925	96.2%
2017	389,591	9,505,807	9,116,216	95.9%
2018	-	-	-	
2019	1,439,494	32,246,774	30,807,280	95.5%
2020	323,570	5,483,363	5,159,793	94.1%
Total	$ 2,325,160	$ 51,780,374	$ 49,455,214	95.5%
Average	$ 465,032	$ 10,356,075	$ 9,891,043	95.5%

Planned Actions

City staff is anticipating bringing forward to Council a number of future reports related to the above incentive programs.

1. Downtown and Community Renewal Community Improvement Plan Financial Incentives:
   - Economic Development staff of PED regularly review the status and need for the City's various financial incentive programs. The results of the most recent review were presented to and approved by GIC in March 2021 and the implementing statutory changes will be brought to Council in July 2021. It is expected that future program reviews will be impacted by the LRT investment should the project proceed.

2. Development Charges By-law and Community Benefits Charges By-law:
   - Finance staff of Corporate Services and the Planning Division Staff of Planning and Economic Development will be co-ordinating a review, study and by-law for Community Benefits Charges under the *Planning Act* in 2021 / 2022 for implementation by September 2022
   - Finance staff of Corporate Services will be co-ordinating a DC Background Study and new by-law under the DC Act which will include a review of DC exemptions in 2022 / 2023 for implementation by September 2023.

3. Parkland Dedication By-law:
   - Real Estate staff of the Planning and Economic Development Department will be co-ordinating a Parkland Dedication By-law Review under the *Planning Act* which will include an assessment of the cash-in-lieu of parkland dedication incentives with a report to Council in the second quarter of 2022.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS21066 – Eight-Year Development Charges Exemption Summary

BM/dt