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## Memo

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TO: Colin Smith, CAO

FROM: Shane Thomson, Director, Economic Development

RE: Financial Incentives

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### **Background**

Nearly every jurisdiction in North America offers some form of financial incentive(s) to attract new investment. With the recent changes to the NB Municipalities Act, municipalities in New Brunswick have been provided the flexibility to use financial incentives to attract investment to their communities. While a number of jurisdictions in New Brunswick had skirted the rules in the past, some already offering forms of financial incentive, it is likely that with the updated legislation and leeway and freedom to get creative in incentive packages to create economic growth, other municipalities will follow.

An examination of some of the types of incentives that are currently offered in other communities revealed the following;

#### **Community Improvement Plans**

These programs typically focus on a particular geographic zone in the community. The City of Moncton for example in order to promote development in its downtown, has a CIP program that provides grants based on the type of development undertaken. Moncton provides two types of grants in its CIP, Redevelopment grants and building permit and development charges rebate grants. The latter being provided only to projects valued over \$10M while the Redevelopment grants are a form of incremental tax grant and are calculated based on a prescribed formula. Projects valued under \$10M receive grants over 5 years while projects valued over \$10M receive grants over 10 years. The following table outlines how these grants are structured;

#### **REDEVELOPMENT GRANT FORMULA**

The grant amount will be determined by calculating the Grant Base which will be paid to the developer on a declining scale over the terms of the agreement.

Grant Base amount formula =

Cost of construction x (% of commercial building x 0.024 + % of residential of building x 0.016)

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GRANT CALCULATION	
VALUE OF CONSTRUCTION (AT TIME OF BUILDING PERMIT)	\$12,000,000
MUNICIPAL TAX PORTION	x 0.02459
GRANT DURATION IN YEARS	10
INCREMENTAL CITY TAXES	\$295,080
GRANT BASE AMOUNT	\$288,000

Redevelopment Grant – portion of increased incremental property taxes being redirected to Downtown Capital Improvement Fund to pay for Redevelopment Grant for improvement of municipality with Community Improvement Plan Area over a 10 year period.

Year	% of Grant	Grant Amount	New Tax Revenue to City
Year 1	91%	\$261,818	\$33,262
Year 2	82%	\$235,636	\$59,444
Year 3	73%	\$209,455	\$85,625
Year 4	64%	\$183,273	\$111,807
Year 5	55%	\$157,091	\$137,989
Year 6	45%	\$130,909	\$164,171
Year 7	36%	\$104,727	\$190,353
Year 8	27%	\$78,545	\$216,535
Year 9	18%	\$52,364	\$242,716
Year 10	9%	\$26,182	\$268,898
TOTAL		<b>\$1,440,000</b>	<b>\$1,510,800</b>

Other communities, such as Edmundston, have a similar program whereby grants are provided on a sliding scale depending on the increase in property assessment from the project.

Commercial – Downtown Edmundston			
Increase in property value of :			
	\$300,000 to \$ 500,000	\$ 500,001 to \$ 1,000,000	More than \$ 1,000,00
Year 1	\$ 9,000	\$ 16,500	\$ 33,000
Year 2	\$ 6,000	\$ 11,000	\$ 22,000
Year 3	\$ 3,000	\$ 5,500	\$ 11,000
TOTAL	\$ 18,000	\$ 33,000	\$ 66,000

Edmundston has not had a lot of uptake on this program over three years and mostly from existing local developers who likely would have developed anyway.

### Commercial Property Improvement Grants

These types of grants aim to improve upon the physical appearance of properties within a designated area, achieve quality façade improvements, support commercial property / business owners with limited

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rehabilitation of interior space and assist in creating a barrier-free and accessible environment. Maximum grant amounts will be paid on a matching basis (50%-50%) to a maximum of \$10 K (eg.) per property for eligible work under the Program.

### Office Tenancy Assistance Program

Another interesting program found in Hamilton, ON, the Office Tenancy Assistance Program provides financial assistance to either building owners or tenants for eligible leasehold improvements to office buildings located within Downtown Hamilton. The intent of the Program is to facilitate the increased attractiveness and marketability of the office stock and reduce the office vacancy rate by attracting new office tenants and owner-occupied office uses from outside the City, and to assist existing businesses to expand.

Acting as a lender, the City provides financial support for the Program in the form of a zero interest loan.

There is a maximum loan amount established and the loan amount will be based on the lesser of either a) or b):

- a) 90% of estimated eligible leasehold improvement costs;
- b) i) in the case of applications by an owner or tenant involving a lease, the square foot area multiplied by the appropriate \$ amount based on the term of the lease, as indicated in the table below;

Term of Lease	\$ amount
12 to 35 months	\$10
36 to 47 months	\$15
48 to 59 months	\$20
60 months or longer	\$25

The lease must be for a minimum of one year.

ii) in the case of applications by an owner not involving a lease (i.e. owner-occupied office space), the square foot area multiplied by \$25.

As Riverview seeks to expand its **retail** mix, it might be interesting to consider this model for **retail** projects.



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While there are no guarantees that financial incentives would spur more development in the Town, the fact remains that economic development is a competitive landscape and that potential investors base their decisions mainly on the bottom line. Riverview already provides a relatively low-cost environment for doing business, low taxes, reasonable land values and utility rates, etc., however the Town does continue to face a challenge in attracting commercial development. Developers who have participated in the Moncton program have suggested that these types of grants have turned borderline projects into feasible ones without question.

Since the province has provided the latitude for the municipality to provide grants and the best practise models presented above do illustrate that the long term return on investment that these type of grants provide is positive for the municipality, Council may want to entertain unrolling a similar grant program that works best for Riverview.

While staff have reviewed a number of best practices across North America, it would seem a worthwhile approach for Riverview may be a hybrid of the Moncton and Edmundston models. One that provides enough financial incentive to accelerate new projects but that also positively benefits Riverview's commercial tax base as an objective

#### **RECOMMENDATION FROM STAFF**

That Council give staff direction to draft a Riverview financial incentive program to bring to Council at a later date for consideration.

#### **CONSIDERATIONS**

**Legal:** The particulars of the grant program would spell out all of the legal requirements necessary to award grants

**Financial:** A fund would need to be budgeted to disperse these grants.

**Policy:** n/a

**Stakeholders:** Development community, Council, tax payers

#### **Interdepartmental Consultation:**

**Communication Plan:** This program would be marketed as an incentive to invest in Riverview.

Prepared by: \_\_\_\_\_

CAO Approval: \_\_\_\_\_

Date of Approval: \_\_\_\_\_