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File No.
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| TO: | CHAIR AND MEMBERS PLANNING AND ENVIRONMENT COMMITTEE MEETING ON July 23RD, 2012 |
| FROM: | JOHN M. FLEMING DIRECTOR, LAND USE PLANNING AND CITY PLANNER |
| SUBJECT: | AIRPORT AREA TAX INCREMENT GRANT PROGRAM 2480 HURON STREET |

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| RECOMMENDATION |
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That, on the recommendation of the Director, Land Use Planning and City Planner, the following information report pertaining to the processing of an Airport Area Tax Increment Grant Application for lands in the Airport Area Community Improvement Plan known municipally as 2480 Huron Street **BE RECEIVED**.

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| PREVIOUS REPORTS PERTINENT TO THIS MATTER |
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Report to Planning Committee recommending an amended Airport Area Community Improvement Plan, January 15th, 2007.

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| BACKGROUND |
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On February 19th, 2007 Municipal Council adopted the Airport Area Community Improvement Plan (ACIP) to outline the strategies and framework for a coordinated municipal effort to stimulate economic development in the aerospace industry in the vicinity of the London International Airport.

One of the strategies to encourage such investment was the Airport Area Tax Increment Grant Program (TIG). The Tax Increment Grant Program was intended to provide municipal incentives for the redevelopment and/or rehabilitation of underutilized lands within the ACIP.

The Program provides a grant to the property owner by refunding the increase in the municipal portion of the property tax ensuing from a reassessment as a result of property improvements. The amount of the tax increment grant is equal to the difference between the municipal portion of the property tax prior to Redevelopment, Rehabilitation and the municipal portion of property taxes after the Redevelopment, Rehabilitation and/or Renovation project. Tax increases that result from a general reassessment, a change in tax legislation or an increase in the tax rate will not be considered for the purposes of calculating the grant. Rebate grants are not provided for the education portion of property taxes. The annual grants are provided to eligible property owners over a ten (10) year period.

Tax Increment Grants have been very successful in the Downtown and the Old East Village where the grant has the effect of deferring the total amount of taxes that would otherwise be due as a result of a reassessment in a post development or redevelopment scenario.

The specifics of the Airport Area Tax Increment Grant Program, and the mechanics of its delivery, are attached as Appendix 1 to this report. In general, the program provided incentives worth 100% of the incremental increase in value of the municipal taxes that arise from development or redevelopment within the Airport Community Improvement Project Area.

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| 2480 HURON STREET |
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On October 21st, 2010 the City of London issued a Building Permit to Transport Canada to erect a 2 storey, five unit warehouse on lands known municipally as 2480 Huron Street. The warehouse had a reported floor area of 4,000 square metres (13,000 sq. ft.) and a construction value of \$4,100,000. The warehouse was completed in December of 2010.

One of the units is currently occupied by an aviation logistics firm. The London Airport Authority is presently engaged in leasing discussions with a second firm that specializes in aerospace technologies and manufacturing. The remainder of the units are unoccupied.

To be considered for an incentive, the property owner must submit an Airport Area Tax Increment Grant application concurrent with an application for a Building Permit. The City, in turn, will review the application for eligibility and, if deemed appropriate, prepare a letter of financial commitment. The issuance of the Building Permit serves to establish a pre-improved assessed value for the property. The completion of the project, and notification by the applicant of reassessment, serves to identify a post-improved assessed value. Utilizing the pre and post-improved assessed values, the City would then prepare the grant calculation and execute a grant agreement with the applicant. It is noted that the annual grant is based upon changes in property taxes as a result of construction and improvement to the property, and is not based upon occupancy or changes in occupancy.

Lands under the control of the Crown are normally exempt from property taxes. The exception to this general exemption is that land occupied by a taxable tenant is taxed as though the property is owned by the tenant (in accordance with Section 18 of the *Assessment Act*). The tenant in essence becomes a legal entity liable to the City for property taxes as assessed through Provincial legislation.

This report has been prepared to inform Council of staff's intent to interpret the program such that the current proposal to add an eligible use to the property would initiate a letter of commitment from the City, notwithstanding that the letter of commitment is generally provided coincident with the issuance of a building permit.

The building was built by the Airport Authority in contemplation of attracting aerospace-related uses to the airport. These are the uses that are eligible for incentives under the City's program. It is also noted that it may be necessary to bring forward for future Council consideration a modified Program Guideline and Grant Agreement reflective of the unique tax and tenant considerations for the subject lands. As an exempt body, the Airport may not pay municipal taxes, but the tenant of the space would be taxable, so the benefit would accrue to the tenant. Also, as this program is tied an eligible use, the value of the grant would vary based upon the occupancy of the property by an eligible use.

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| CONCLUSION |
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On February 19th, 2007 Municipal Council adopted the Airport Area Community Improvement Plan (ACIP) to provide incentives for aerospace related uses to develop within the Airport Community Improvement Project Area. In response to this, the Airport constructed a facility in 2010 to attract these types of users. The Airport is currently in discussion with an eligible user to occupy a portion of the constructed building, and Staff are recommending that the program be interpreted to allow this user to avail of the benefits of this program.

The current Program Guideline and associated Grant Agreement does not fully reflect the unique tax and ownership issues inherent with the development and/or redevelopment of federally owned lands, nor the time lag between the construction of the facility and its use by an eligible business under this incentive program. An amended program guideline and grant agreement will be necessary to provide for an incentive for the eligible tenants of 2480 Huron

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Street.

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| PREPARED BY: | SUBMITTED BY: |
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| BRIAN TURCOTTE SENIOR PLANNER | GREGG BARRETT MANAGER CITY PLANNING AND RESEARCH |
| RECOMMENDED BY: | |
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| JOHN M. FLEMING DIRECTOR, LAND USE PLANNING AND CITY PLANNER | |

July 16, 2012

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Appendix 1- Extract from Airport Area Community Improvement Plan

TAX INCREMENT GRANT PROGRAM

General Provisions

- This grant program will provide grants to property owners who redevelopment, rehabilitation and/or renovation projects, which result in a re-assessment of their properties.
- This grant program applies to a redevelopment, rehabilitation and/or renovation project associated with those industries whose primary operation is related to aerospace manufacturing and servicing.
- The amount of the grant will be based upon the increase in the municipal portion of property taxes that is directly related to a redevelopment, rehabilitation and/or renovation project (i.e. tax increase that results from the increase in assessment). Tax increases that result from a general reassessment, a change in tax legislation or an increase in the mill rate will not be considered for the purposes of calculating the grant.

General Eligibility Criteria and Conditions

- All applicable property taxes owing for each year must be fully paid prior to the disbursement of any annual grant amount under this program. If property taxes are owing on a property for more than one full year, the City will have the option, without notice and at its own discretion, of terminating all future grant payments, thereby eliminating all grant obligations to the applicant.
- Notwithstanding any other calculations relating to the grant amount, the City will not pay an annual grant which is greater than the municipal portion of the property tax collected for a property in any one year (i.e. if a general reassessment substantially reduces annual property taxes on a property, the annual grant amount will be capped at the municipal portion of the property tax collected for that property in any one year).
- The applicant(s) for an Airport Area Tax Increment Grant Incentive must be the registered owner(s) of the subject property.
- Separate applications must be made for each discrete property under consideration for a tax incentive grant.
- Applicants may be eligible for this program even if they have made applications for any other grants or loans offered by the City of London.
- A building permit application must be submitted to the Building Division coincident with the application for a Tax Incentive Grant.
- Tax Incentive Grants will not be given retroactively to recognize projects that have begun without application to this program. To be eligible for this program a completed application must be received by the Planning Division prior to any works being done which relate to the associated building permit application.
- The annual grant is based upon changes in property taxes as a result of construction and improvement to the property, and is not based upon occupancy or changes in occupancy.
- If the property is under an assessment appeal, the application will be held in abeyance until the appeal is resolved.

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- Tax increases that result from a general reassessment, a change in tax legislation or an increase in the mill rate will be not be considered for the purposes of calculating the grant. The annual tax increment will be held constant over the ten-year grant period (i.e. changes in mill rate or phased in assessment increases after the post-improvement date is established will not be incorporated into the calculation of the annual tax increment).
- If a participating property is sold, in whole or in part, before the grant period elapses, the applicant and/or the subsequent landowner is not entitled to outstanding grant payments (on either the portion sold or retained by the applicant). The City may, entirely at its own discretion, enter into a new agreement with any subsequent owners of the property to receive outstanding grant payments under this program.
- The amount of the grants provided for a property over the life of this program will not exceed the value of the work done that resulted in the increased level of municipal tax assessment. For this reason the amount of grants may be monitored in relation to the total value of work done and the grants will cease if they equal the value of the work done.
- The applicant will be responsible for ensuring that they can be contacted by the City for the purpose of delivering grant cheques. If applicants cannot be reached over a protracted period (greater than 2 years), the City will have the option, without notice and at its own discretion, of terminating all future grant payments, thereby eliminating all grant obligations to the applicant.

Discontinuation of Program

- The City may discontinue the Airport Area Tax Increment Grant Program at any time; however, any participants in the program prior to its closing will continue to receive the grants as were determined for their properties.
- Council may periodically review the Airport Area Tax Increment Grant Program to determine if the program should continue, be modified, or cease to issue any new commitments.

Grant Period

- Grants will be paid over a ten-year period.
- "Year 1" will be defined as one of the following two periods. The applicant will be asked to choose which of these two periods they wish to define as "Year 1" for the purposes of calculating their grant schedule:
 - i) Year 1 is the first full calendar year that taxes are paid after the project is completed and reassessed; OR
 - ii) Year 1 is the portion of the first calendar year after the project is completed and reassessed.
- For example, where a project is completed and the property is reassessed on February 28, 2001, the applicant has the option of:
 - i) Considering 2002 as "Year 1": Under this option the grant recipient will receive a Year 1 grant, which relates to the payment of a full year of taxes. Under this option the first annual grant would be received at the end of 2002; OR
 - ii) Considering 2001 as "Year 1": Under this option the grant recipient will receive a Year 1 grant which relates to the payment of 10 months of their property taxes. Under this option the first annual grant would be received at the end of 2001.
- This option is provided to the applicant such that they can maximize their grant in Year 1, by

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waiting to pay taxes for a full calendar year, or they can minimize the time lag between the completion of their project and their first grant payment.

- In those instances where the total value of the grant over the full term of the grant period is less than or equal to one thousand dollars (\$1,000), the City may exercise, at its own discretion, the option of issuing a one-time lump sum payment of the total grant amount as detailed in the Grant Agreement.

Pre-improved Assessed Value

- For the purpose of calculating the annual tax increment, the pre-improved assessed value of the property will be established as the earlier of the following: (i) date of application for building permit; (ii) date of application for demolition permit; or (iii) date of application for the Airport Area Tax Increment Grant Program.

Post-improved Assessed Value

- For the purpose of calculating the annual tax increment, the post-improved assessed value of the property will be established based on:
 - i) Completion of the project as identified by the applicant; AND
 - ii) Completion of the reassessment of the property by the Regional Assessment Office such that the work done at the project completion date (defined in i. above) is recognized.
- Note that future increases in taxes that may be phased in AFTER the post-improved assessment date (as defined in (i) and (ii), above) will not be eligible for grant calculation.

Calculation of Annual Tax Increment

- The annual tax increment will be calculated as follows:
- (Annual Taxes Based on Post-improved Assessed Value - Annual Taxes Based on Pre-improved Assessed Value)
- Note that the above calculation relates to the Municipal portion of property taxes.
- Note also that this annual tax increment is fixed for the ten-year duration of the grant schedule. Changes to the mill rate, general reassessments or changes in tax legislation will not be considered for the purpose of calculating the annual tax increment.

Calculation of Annual Grant

- The annual grant is defined as the grant amount that would be given to the applicant in any one year of the ten-year grant period.
- The annual grant for any single year will be calculated as follows:
- **(Annual Tax Increment * Year/Level Factor)**
- Note that the above calculation relates to the Municipal portion of property taxes.

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Year/Level Factors

| Year | Year/Level Factor (%) | Year | Year/Level Factor (%) |
|------|-----------------------|------|-----------------------|
| 1 | 100% | 6 | 100% |
| 2 | 100% | 7 | 100% |
| 3 | 100% | 8 | 100% |
| 4 | 100% | 9 | 100% |
| 5 | 100% | 10 | 100% |

Grant Agreement

- Participating property owners in the Airport Area Tax Increment Grant Program shall be required to enter into a grant agreement with the City.
- This agreement shall specify such items as (but not limited to) the level of the grant applicable, the duration of the grant, and the owner's obligation to repay the City for any grants received if the property is demolished before the grant period elapses.
- The agreement is intended to encapsulate all of the terms and conditions included in these grant guidelines.

Figure 1

AIRPORT AREA COMMUNITY IMPROVEMENT PLANNING AREA and SUBJECT SITE

