

Report to Planning and Environment Committee

To: Chair and Members
Planning & Environment Committee
From: John M. Fleming
Managing Director, Planning and City Planner
Subject: VersaBank
1979 Otter Place – Request to extend Airport Area
Community Improvement Plan (CIP) Tax Increment Grant
Meeting on: September 24, 2018

Recommendation

That, on the recommendation of the Managing Director, Planning and City Planner, VersaBank's request for an extension to its Airport Area Community Improvement Plan Tax Increment Grant agreement for the property located at 1979 Otter Place **BE REFUSED**.

Executive Summary

Summary of Request

VersaBank submitted a request for delegation status with supporting documentation to the July 16, 2018 Planning and Environment Committee meeting requesting an extension to its original grant agreement with the City under the Airport Area Tax Increment Grant program.

Purpose and the Effect of Recommended Action

The purpose and effect of the recommended action is to refuse the request for the extension.

Rationale of Recommended Action

Staff are recommending refusal of the extension for the following reasons:

- The CIP Service Review has established the parameters for the funding of financial incentives offered through the City's eight Community Improvement Plans;
- The purpose and intent of the Airport Area CIP has been met by attracting a new business to the Airport;
- In 2019, the full value of the incentive (100% of the incremental tax increase) will be paid for the full 10 years of program eligibility;
- Granting an extension would set a precedent.

Analysis

1.0 Airport Area CIP and Tax Increment Grant Background

1.1 Purpose of the Airport Area CIP and Tax Increment Grant Program

In April 2006, Municipal Council designated the Airport Area community improvement project area and adopted the Airport Area Community Improvement Plan (CIP) to outline the strategies and framework for a coordinated Municipal effort to stimulate community economic development by retaining aerospace companies within the city.

The Tax Increment Grant program offered through the Airport Area CIP is intended only for aerospace manufacturing and servicing companies as defined in the CIP based on the North American Industrial Classification standards. These include:

- Aerospace products and parts manufacturing;
- Scheduled air transportation;
- Non-scheduled air transportation;
 - Non-scheduled chartered air transportation;
 - Non-scheduled specialty flying services.
- Scenic and sightseeing transportation, other;
- Support activities for air transportation;
 - Airport operations;
 - Air traffic control;
 - Other airport operations.
 - Other support activities for air transportation;
 - Air ambulance services.
- Other industries – It is recognized that the list of eligible industries may exclude some legitimate aerospace industries whose industrial classification is not included above. Allowing other industries to be eligible for the Tax Increment Grant program may complement the local aerospace industry. In circumstances where a company is engaged in activities other than those listed above the company's eligibility for incentives will be considered on a case-by-case basis.

The Airport Area CIP offers a single financial incentive program, the Tax Increment Grant, to help achieve its purpose and intent. Section 28(7) of the *Planning Act* permits municipalities to provide grants or loans for the purposes of carrying out a CIP to owners and tenants within a community improvement project area. The Tax Increment Grant program is intended to remove some of the disincentives associated with property improvements in order to encourage redevelopment, rehabilitation and/or renovation of the Airport Area.

To date, three applications have been approved for the Airport Area Tax Increment Grant program. Two of the three applications are receiving annual grants. The third application will begin grant payments in 2019.

1.2 How the Tax Increment Grant Program Works

The Airport Area Tax Increment Grant is calculated based on the increase in the municipal portion of the property tax that is directly related to a redevelopment, rehabilitation and/or renovation project.

Annual grants are provided to property owners over a ten-year period. The annual grant amount will remain constant over this ten-year period.

The annual tax increment is calculated as follows: the annual taxes based on post-improvement assessed value minus the annual taxes based on pre-improvement assessed value. It being noted that the above calculation relates only to the Municipal portion of property taxes. Further, the 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 are not considered for the purpose of calculating the annual tax increment.

The annual grant is calculated by multiplying the annual tax increment as calculated above by the year/level factor identified in the CIP. For the Airport Area CIP, the year/level factor is 100% of the annual tax increment for the ten-year duration of the grant schedule.

Participating property owners and tenants in the Airport Area Tax Increment Grant program are required to enter into a grant agreement with the City, which specifies the duration of the grant and the owner's obligations.

2.0 VersaBank – 1979 Otter Place

2.1 Background and Existing Grant Agreement

In May 2007, the City received a Tax Increment Grant application from Pacific and Western Bank (now VersaBank and referred to as "VersaBank" or the "Bank" throughout this report) on behalf of its subsidiary Arctic Financial Ltd. This was the first incentive application received under the Airport Area CIP. Documentation provided in support of the Bank's application indicated that the Bank was a tenant at London International Airport who had recently constructed a 9,000 square foot hangar complex on leased land at the Airport. Further, at the time, the Bank was a minority shareholder in Discovery Air Inc. Discovery Air is an investment holding company whose interests in 2007 comprised of an aviation service business which provide specialized air transport service to customers in selected niche markets across Canada. At that time, the Bank's hangar facility in London was strongly being considered for Discovery Air's head office. As a result, an 8,500 square foot addition was constructed to the Bank's hangar of which 7,000 square feet would be utilized as office space to support Discovery Air's corporate operations.

Staff issued a Commitment Letter in June 2007 approving the property and proposed aerospace use as eligible for the Tax Increment Grant program. The construction project was completed in 2008. Ultimately, Discovery Air decided to locate in Etobicoke in proximity to Pearson International Airport and the Bank used the new office space as a new head office for a wholly owned subsidiary.

A grant agreement was signed between the City of London and Arctic Financial Ltd. in October 2012 that approved a ten-year grant schedule with annual grant payments of \$39,845.69. Also in 2012, a payment was issued to Arctic Financial Ltd. for \$119,537.07 to cover the first three years (2009, 2010, and 2011) of the grant schedule. Arctic Financial / VersaBank has since received an annual payment of \$39,845.69. There is one year left on the grant schedule. This payment will be issued in the first quarter of 2019.

2.2 Request for an Extension (Appendix A)

VersaBank submitted a request for delegation status with supporting documentation to the July 16, 2018 Planning and Environment Committee meeting requesting an extension to its original grant agreement with the City under the Airport Area Tax Increment Grant program (Appendix A). In its supporting documentation, VersaBank states the reason for seeking an extension is on the basis of the significant investment in the VersaBank Innovation Centre for Excellence (VICE) facility, which occupies 1979 Otter Place.

At its meeting held on July 24, 2018 Municipal Council resolved:

That delegation status BE GRANTED to D.R. Taylor, President & CEO, VersaBank, or his designate, at a future meeting of the Planning and Environment Committee when the Managing Director, Planning and City Planner, reports back on this matter; it being noted that the Planning and Environment Committee reviewed and received a communication dated July 4, 2018, from .R. Taylor, President & CEO, VersaBank, with respect to this matter. (2018-F11A) (4.2/12/PEC).

2.3 Reasons to Refuse the Request for an Extension

Staff have reviewed the request for an extension to VersaBank's original grant agreement and are recommending refusal for the following reasons:

CIP Service Review – In 2016 and 2017, the City undertook an extensive CIP Service Review that evaluated the current CIP incentive programs and provided a series of recommended changes to those programs. The Service Review identified budgets for both the revised and future programs and subsequent amendments to the City's CIPs.

The CIP Service Review also helped identify savings and determined what programs and any related changes to those programs would be funded by those savings. Extensions to existing Tax Grant application were never contemplated through the Service Review.

As the CIP Service Review has recently allocated funding to the various incentive programs offered through the City's eight CIPs, staff are of the opinion that extensions to existing Tax Grant applications are contrary to the CIP Service Review recommendations approved by Municipal Council. Further, an extension would result in approved funding for other incentive programs having to be reallocated towards the extension. In other words, there are limited funds that have already been allocated to existing and future programs.

Purpose and Intent of the Airport Area CIP has been met – As previously stated the purpose of the Airport Area CIP is to stimulate community economic development by retaining aerospace companies within London around the International Airport. The grant offered after the initial construction and occupation of the Arctic Financial / VersaBank building at 1979 Otter Place indicates that the Tax Increment Grant program was successful and the intent was met. A new office addition, despite not being the head office for Discovery Air, was constructed resulting in employment and economic development around the Airport. As a result, staff are of the opinion that as the purpose and the intent of the Airport Area CIP has been met, the original grant agreement should end after the 10 years.

Precedent – The Airport Area CIP and the Brownfield CIP are the only two CIPs that offer a Tax Grant program that maintains a year/level factor at 100% of the annual tax increment for the duration of the grant agreement (ten years for the Airport Area CIP and three years for the Brownfield CIP). In comparison, the Tax Grant programs offered through the Downtown, Old East Village, SoHo, and Heritage CIPs are on a declining scale over the ten-year duration.

As a result, it is unlikely that a property owner would seek an extension to a Tax Grant program where the grant amount declines over ten years because after the tenth year, the annual grant is often nominal; however, in instances where the year/level factor remains at 100% for the duration, the annual grant remains the same for the length of an extension. In other words, the extension is much more desirable for grants offered through the Airport Area CIP.

Staff are of the opinion that setting a precedent where Tax Grants are able to be extended is not appropriate and could negate the efforts of the CIP Service Review. Also, some of the City's Tax Grant incentive programs have been in effect since the 1990's. This is the first request under any of the City's Tax Grant programs for an extension of the benefit provided by the program. Further, granting an extension to one Airport Area CIP applicant may cause other Airport Area CIP Tax Increment Grant applicants to request an extension to their agreements potentially resulting in unanticipated draws on the CIP grant funding source.

3.0 Conclusion

VersaBank has developed a thriving "made in London" business located near the International Airport. By locating within the Airport Area community improvement project area, VersaBank was eligible and approved for the City's Airport Area CIP Tax Increment Grant program in 2007. To date, Versa Bank has received nine of its 10 grant payments totalling approximately \$359,000.

In July 2018, VersaBank requested delegation status at the Planning and Environment Committee seeking an extension to the ten-year grant agreement. Staff are recommending refusal of the grant extension request as an extension is not in keeping with the recommendations of the CIP Service Review, the purpose and intent of the Airport Area CIP has already been met by this application, and approving an extension would set a precedent for future Tax Grant extensions.

Prepared by:	Graham Bailey, MCIP, RPP Planner II, Urban Regeneration
Reviewed by:	Gregg Barrett, AICP Manager, Long Range Planning and Research
Submitted by:	Britt O'Hagan, MCIP, RPP Manager, Urban Regeneration
Recommended by:	John M. Fleming, MCIP, RPP Managing Director, Planning and City Planner
Note: The opinions contained herein are offered by a person or persons qualified to provide expert opinion. Further detail with respect to qualifications can be obtained from Planning Services	

September 17, 2018
GB/gb

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July 4, 2018

Chair and Members
Planning and Environment Committee
City of London
P.O. Box 5035
300 Dufferin Avenue
London, Ontario
N6A 4L9

Sent via email to: Heather Lysynski, Committee Secretary, pec@london.ca

Attn: Heather Lysynski, Committee Secretary

We are requesting delegation status at a Planning and Environment Committee meeting. The purpose of this letter is to request an extension to VersaBank's (the "Bank") original Grant Agreement ("OGA") with the City of London under the Tax Increment Grant and the Airport Area Community Improvement Plan.

The OGA, executed in 2012 with tax grants commencing retroactively for the 2008 tax year, is attached for the Committee's reference. The OGA became effective as an office building and hangar was being completed at 1979 Otter Place, on the grounds of the London International Airport. At the time, the Bank had built the facility at Otter Place as a new head office for a wholly owned subsidiary. Due to the continued expansion of its digital businesses and to further contribute to the corporate hub being developed at the airport, the Bank decided to convert the property for its own use and renamed the facility the VersaBank Innovation Centre of Excellence ("VICE"). The decision to renovate and expand VICE was made rather than taking on additional space at the Bank's 140 Fullarton St. (downtown) head offices.

Over the course of 2017 and 2018 VersaBank invested approximately \$1.3 million to completely renovate VICE's 8500 square feet of offices. VersaBank's IT and e-Commerce divisions are now housed at VICE, representing the backbone and pillars behind our digital bank. We have approximately 30 staff now working full time at this new facility.

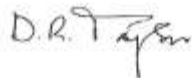
The Bank is seeking an extension to its tax relief under the Tax Increment Grant and the Airport Area Community Improvement Plan (as initially set out under the OGA) on the basis of the significant investment it has made to the VICE facility, which in part helps to further improve

the new corporate hub that is developing on the grounds surrounding the airport. VersaBank is proud to call London its home, with our head offices in the City of London, and we are further proud to boast of our continued expansion inside the City.

It is our hope you will grant us a 10 year extension to this relief, and we look forward to continue to enjoy and promote our new and expanded offices at our world class Innovation Centre of Excellence.

Should you have any questions or wish to discuss anything, I look forward to hearing from you.

Yours truly,

A handwritten signature in black ink that reads "D.R. Taylor". The signature is written in a cursive style with a large initial "D" and "T".

David R. Taylor
President & CEO

Encs:

GRANT AGREEMENT

This agreement consists of five pages

UPDATED TO VARIOUS BANK

Name of Property Owner(s): **Arctic Financial Ltd.** Application No. _____
 Address of Project: 1979 Otter Place, London, ON N5V 0A5
 Legal Description of Property (Lot and Plan Number): _____
 Roll Number(s): _____
 Mailing Address of Owner: 140 Fullarton Street Telephone: 519-845-1919
 (If different from above) Suite 2002, London, ON Fax: 519-845-2080
 N8A 5P2

BANK ASSUMED ALL ARCTIC AGREEMENTS

Heritage Alteration Permit Information: N/A

Date Permit Approved (attach copy): N/A

Designating By-Law: N/A

PROJECT INFORMATION (Attach copy of Building Permit)

Building Permit Number: 06 031244 000 00 ID & 07 008985 000 00 ID
 Date of Permit: Jan 2, 2007 & May 4, 2007
 Value of Project (permit): \$830,000 + \$1,400,000 = \$2,030,000

Application Tracking Information (for Staff use only)	Date and Staff Initials
Application Accepted	May 31, 2007
Pre-Improved Assessment Value Determined	December 1, 2006 (\$ 0.00)
Commitment Letter Issued	June 26, 2007
Project Completion (applicant's written confirmation)	May 2, 2008
Request to Finance and Administration for Preparation of Schedules	January 20, 2012
Post-Improved Assessed Value Determined	January 1, 2009 (\$1,619,000)
Planning Division Receives Grant Schedules from Finance & Admin.	January 26, 2012
Applicant Chooses Grant Schedule	N/A
Date of Lump Sum Payment (\$1,000 or less)	N/A
First Grant Cheque Issued	
Last Grant Cheque Issued - File Closed	

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GRANT CALCULATION:

Pre-improved assessed value: \$ 0.00 Date: Dec 1, 2006

Post-improved assessed value: \$ 1,819,000.00 Date: Jan 1, 2009

Increase in assessed value after adjustments: \$ 1,819,000.00

Applicable tax (mill) rate (municipal portion): 2.46

Annual tax increment: \$ 39,845.69

— EXPECTED
PAY OF FOLLOWING
YEAR

Year	Year/Level Factor	Schedule 1 - Year 1=First Full Calendar Year After Completion
1	2009/100%	\$39,845.69
2	2010/100%	\$39,845.69
3	2011/100%	\$39,845.69
4	2012/100%	\$39,845.69
5	2013/100%	\$39,845.69
6	2014/100%	\$39,845.69
7	2015/100%	\$39,845.69
8	2016/100%	\$39,845.69
9	2017/100%	\$39,845.69
10	2018/100%	\$39,845.69

OK # 00945464
2012-09-29
\$ 119,537.07
pd 11/18/15
\$39,845.69
#38,280.49 Rec'd 7/17
1,565.20 8/13/14
- MARCH 15
MARCH 2/16
APR. 4/17

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Conditions:

1. The term "Applicable Tax(Mill) Rate" refers to the General, or Municipal portion only of the total tax (mill) rate paid. It does not include such taxes/charges as Education, Transportation, Local Improvement, or other "area charges", Business Improvement Area (BIA) levy, or any Phase In, or Encroachment Fee. Changes in the tax (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.
2. Grants are not payable by the City until such time as all additional assessment eligible for grant has been added to an assessment roll by the Ontario Property Assessment Corporation, all taxes eligible for grant have been billed by the City, and all taxes outstanding including billed taxes that have not yet become due are paid in full for all years by the taxpayer. Grants are also not payable by the City until such time as all possible assessment appeals relating to value of the land before the additional assessment or to the value of the additional assessment have been filed and decided. 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.
3. 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).
4. The applicant(s) for an Airport Area Tax Increment Grant Incentive must be the registered owner(s) of the subject property.
5. Separate applications must be made for each discrete property under consideration for a grant.
6. The annual tax 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.
7. The total value of the grants provided under this program over the full term of the grant payment shall not exceed the value of the work done. Furthermore, the amount of the grant shall not exceed the municipal portion of the tax bill excluding transit and ignoring cap adjustments, phase-ins or claw back amounts.
8. 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 after the post-improvement date is established will not be incorporated into the calculation of the annual tax increment).
9. If a participating property is demolished in whole before the rebate grant elapses it shall cause the grant to be forfeited and be repayable to the municipality. It is to be repaid on, or before, the first day of municipal tax collection following the sale of the property. Demolition, in part, may be permitted entirely at the discretion of the City of London without a requirement for repayment, but only in those instances where a written request by the property owner is received and a corresponding letter of permission is granted by the City.

GRANT AGREEMENT

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10. 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.
11. 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.
12. 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.
13. Any portion of the property that is sold (including one or more condominium units) during a calendar year, will not be eligible for a grant rebate for that entire year or subsequent years of the grant schedule. The grant schedule included in this agreement will be modified each year, as necessary, to reflect the sale of the property or portions thereof.
14. Any appeals of the property's assessed value that result in a reduction in the assessed value of the property, will cause the entire 10-year grant schedule to be re-calculated recognizing the property's revised assessed value.

GRANT AGREEMENT

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- A. IWE HEREBY AGREE TO ALL OF THE CONDITIONS IN THIS GRANT AGREEMENT (consisting of four pages), and the terms and conditions of the Airport Area Tax Increment Grant Program guidelines (as attached).
- B. IWE HEREBY CERTIFY that the information given above is true, correct and complete in every respect and may be verified by the municipality. The City is relying upon the information provided by the applicant and if the information in this agreement, or the associated application, proves to be false or substantially inaccurate, the grant will be forfeited and be repayable to the City.
- C. IWE HEREBY AGREE that in the event this property is demolished in whole prior to the expiration of the grant period, any funds paid under this Program shall immediately be forfeited and all previously received grant payments will become due and repayable to the City. Demolition, in part, may be permitted entirely at the discretion of the City of London without a requirement for repayment, but only in those instances where a written request by the property owner is received and a corresponding letter of permission is granted by the City.
- D. IWE HEREBY AGREE that if the ownership of the lands described herein, and in receipt of a grant under this program, is transferred to any person other than the signatory of this agreement (Owner), by sale, assignment, or otherwise, then this agreement shall no longer apply. The City may enter into an agreement with any subsequent owner to continue the agreement pursuant to any conditions that the City may apply or may choose to discontinue the applicable grant schedule.

I, DADIA TAYLOR, agree to the above conditions, and have the authority bind the corporation named as property owner on page 1 of this agreement.

D. R. Taylor
SIGNATURE (TITLE) PRESIDENT + CEO

OCT. 3, 2012
DATE

CO-SIGNATURE (TITLE)

DATE

This agreement is hereby approved, subject to the above-specified conditions.

[Signature]
SIGNATURE

3 Oct / 12
DATE

Department of Planning and Development

[Signature]
SIGNATURE

25 / Oct / 12
DATE

City Treasurer