

## Report to Strategic Priorities and Policy Committee

**To:** Chair and Members  
Strategic Priorities and Policy Committee

**From:** John M. Fleming  
Managing Director, Planning and City Planner

**Subject:** Review of City Services for Potential Reductions and  
Eliminations – Downtown and Industrial Lands Community  
Improvement Plans (CIPs)

**Meeting on:** December 17, 2019

## Recommendation

That, on the recommendation of the Managing Director, Planning and City Planner, the following report with respect to reviewing the development charges grant programs available through the City of London's Downtown and Industrial Lands Community Improvement Plans to consider a reduced level of subsidy **BE RECEIVED** for information.

**IT BEING NOTED** that performance measures and indicators of success for both development charge grant programs are being developed that may include targets for reducing future grant funding. It is noteworthy that these programs were recently reviewed and reduced through a service review, which yielded significant municipal savings and established a new review date for these programs of 2023.

## Executive Summary

The Civic Administration was directed to review the Downtown and Industrial Community Improvement Plans (CIPs) to consider a reduced level of subsidy. At this time, City Staff is of the opinion that it is premature to reduce the level of subsidy for the development charge grant programs available in the Downtown and Industrial Lands CIPs. There are numerous analyses underway that must be completed prior to Staff recommending changes in how the programs operate and in grant funding.

## Background

### 1.0 Introduction

At the July 29, 2019 Strategic Priorities and Policy Committee, the Civic Administration brought forth a report entitled "Review of City Services for Potential Reductions & Eliminations" which recommended that Municipal Council provide direction to the Civic Administration regarding specific areas for further review for potential service reductions and eliminations.

Municipal Council, at its meeting held on July 30, 2019 resolved that:

- a) the staff report dated July 29, 2019 detailing the cost savings and avoidance initiatives ongoing and recently undertaken by the City of London **BE RECEIVED** for information; and
- b) the following specific areas **BE CONSIDERED** for further review for potential service reductions and eliminations:
  - i) the Downtown and Industrial CIPs, with consideration for a reduced level of subsidy;
  - ii) Information Technology, with a report back with a summary of past initiatives and potential future review tools; and,

iii) a review of reserve funds with uncommitted balances, (excluding capital asset renewal/replacement funds, and capital asset growth funds) for an analysis of funding contributions to those funds where the annual contributions from the tax levy may be scaled back;

it being noted that the Strategic Priorities and Policy Committee received a communication dated July 25, 2019 and a verbal delegation from C. Butler, and a communication dated July 25, 2019 from W. H. Brock with respect to this matter.

This report focuses on clause b) i) of the aforementioned Municipal Council resolution it being noted that separate reports were presented to the Strategic Priorities and Policy Committee on October 28, 2019 to address clauses b) ii) and iii).

## **2.0 Previous Reports**

Previous reports pertinent to this matter are summarized in Appendix A.

## **3.0 Link to Strategic Plan 2019-2023**

Municipal Council's 2019-2023 Strategic Plan identifies "Building a Sustainable City" and "Growing our Economy" as strategic areas of focus. Revitalizing London's downtown and urban areas is a strategy within both those strategic areas. The Downtown Residential Development Charges Grant program helps to revitalize London's downtown through incentivizing and encouraging the development of new residential units and as a result, increases the downtown population.

The "Growing our Economy" strategic area of focus also contains strategies related to industrial growth and ensuring job growth through attraction of new capital from a diverse range of markets and industries. The Industrial Development Charge Grant helps ensure London remains an attractive market for industrial developers by offering an incentive that allows the city to remain competitive with other markets in Southwestern Ontario.

## **4.0 Community Improvement Plan Service Review**

Staff undertook an extensive Community Improvement Plan (CIP) Service Review in 2016 and 2017, which resulted in a May 2, 2017 Municipal Council resolution with numerous recommended changes to the existing financial incentive programs and the requirement to introduce performance measures and indicators of success for the incentive programs. The changes that came into effective on January 1, 2018, included:

- Amending the Downtown Residential Development Charges Grant program to require the payment of the residential development charges at the time of building permit ("up front") by the applicant and provide a phased grant program to repay the residential development charges to the applicant over approximately 10 years;
- Amending the city-wide Industrial Development Charges Grant program to distinguish between targeted and non-targeted industrial uses and to reduce the development charge grant for non-targeted industrial uses to equivalent to 50% of the development charges paid, up to a maximum grant of \$250,000. Previously, all industrial uses (targeted and non-targeted) were eligible for a 100% development charge grant (in other words, the applicant did not pay industrial development charges). Targeted industrial uses remain eligible for a 100% development charge grant.

The CIP Service Review also noted that the amended programs will expire no later than December 31, 2023 pending a Municipal Council review of the program results to be provided prior to the adoption of the 2024-2027 Multi-Year Budget.

## Analysis

### 5.0 Downtown Residential Development Charges Grant Program

The Residential Development Charge Incentive Program Reserve Fund (RF) is budgeted to receive an annual contribution of \$1.5 million throughout the 2020-2023 Multi-Year Budget. This is a \$500,000 per year decrease from the \$2.0 million budgeted contribution in 2019, for a total savings of \$2.0 million.

One of the primary reasons for this savings is the 2018 amendments to the Downtown Residential Development Charges Grant program changed when grant payments are made to the applicant. Originally, the applicant would not have to pay residential development charges; instead an internal transfer of funds between the Residential Development Charge Incentive Program RF and the appropriate Development Charge RFs would occur. Now with the applicant required to pay the cost of development charges upfront, there is a time lag of often three to four years before the first grant payment is made because an applicant is required to pay development charges upfront, build the project, have the Municipal Property Assessment Corporation (MPAC) reassess the property for the improvements made, and pay the new tax rate for one year before the first grant is issued. As a result of this time lag, a reduction in any grant funding (for example, reducing the grant from 100% to 80% of residential development charges paid) for this program now will have little to no impact on the 2020-2023 Multi-Year Budget.

One grandfathered project remains from prior to 2018. Staff are waiting on the calculation of residential development charges before that full development charge grant is transferred from the Residential Development Charge Incentive Program RF to the appropriate Development Charge RFs. The City is obligated to issue this grant.

Further, as these program changes are only two years old, Staff are of the opinion that it is too early to change the funding levels for the development charge grant program without first completing the analyses discussed throughout this report.

#### 5.1 Link to Our Move Forward: London's Downtown Plan

Adopted by Municipal Council in April 2015, *Our Move Forward: London's Downtown Plan* places an emphasis on public and private partnership initiatives that will attract private sector investment. The Plan is comprised of six strategic directions. Strategic direction 5 "Build a great neighbourhood" focuses on the continued municipal support of the development of a larger residential community in the downtown to foster a local trade market. In other words, increasing the residential population through the construction of new apartment buildings. The Downtown Residential Development Charge Grant program incentivizes the private sector to construct new residential units.

#### 5.2 Link to the Core Area Action Plan

The Core Area Action Plan was received by Municipal Council in November 2019. Staff are in the process of developing the required business cases to implement any initiative requiring additional investment through the 2020-2023 Multi-Year Budget process.

One of the four needs identified in the Core Area Action Plan is "the Core Area needs to attract more people". Having a larger residential population in the downtown will help to alleviate some of the concerns identified in the Core Area Action Plan including increasing the customer base for core area businesses.

#### 5.3 Downtown Residential Absorption Study

City Planning has retained the services of urbanMetrics Inc. to undertake an independent assessment of future residential absorption and construction activity in downtown London. This analysis will include a general residential absorption forecast for the downtown and a site-specific analysis on downtown sites that have recently submitted development applications that are likely to proceed in the short-term.

This analysis will assist the City in identifying the annual financial contributions necessary to fund the Downtown Residential Development Charge Grant program,

provide a market analysis of how many units are reasonably expected to be built over time, and assist the City in developing performance measures and targets for the Downtown CIP for when to step-down the grant funding.

#### **5.4 Bill 108 Changes to Residential Development Charges**

Bill 108 introduced numerous changes to development charges that will have an effect on the two development charge grant programs, including:

- The amount of development charges will be determined on the date of submission of a site plan or zoning application;
- Municipalities will be able to set an interest rate and charge interest from when the development charge is determined to when a building permit is issued;
- Development charge rates will be frozen at the rate in force when an application is made for site plan or zoning approval. The development charge would be frozen until two years from the date the site plan application is approved, or in its absence, two years from the date the zoning application was approved;
- Soft services, such as libraries, parks, and affordable housing will now be collected as community benefits charges under the Planning Act. Development charges will be limited to:
  - Water supply services and wastewater services (including sewers and treatment), Storm water management and drainage, Services related to a highway as defined in the Municipal Act, Electrical power services, Police, Fire protection, Transit, Waste diversion, and Land Ambulance Services;

As a result of the introduction of community benefits charges, the amount of development charges paid by an applicant will likely decrease meaning the total grant amount will also decrease.

Further, payment for development charges will be allowed in six annual instalments when occupancy takes effect for rental housing and 21 annual instalments for non-profit housing.

“Rental housing development” is defined as construction, erection or placing of one or more buildings or structures for or the making of an addition or alteration to a building or structure for residential purposes with four or more self-contained units that are intended for use as rented residential premises”

“Non-profit housing development” is defined as the construction, erection or placing of one or more buildings or structures for or the making of an addition or alteration to a building or structure for residential purposes by a non-profit corporation.

The ability for an applicant to defer the payment of development charges will likely require the development charges grant program guidelines to be revised. Staff are investigating how to best change the programs to reflect the payment of development charges in instalments instead of all at once. This analysis is to be completed in 2020.

#### **5.5 Future Review**

Section 7.0 discusses the CIP measures and indicators of success project that is underway in City Planning. This project will further review the grant funding levels for the Downtown Residential Development Charges Grant Program and recommend a course of action to reduce the grant funding in the future.

### **6.0 Industrial Development Charges Grant Program**

The Industrial Development Charge Incentive Program RF is budgeted to receive an annual contribution of \$2.2 million throughout the 2020-2023 Multi-Year Budget, which is consistent with the 2019 budgeted contribution. Since 2015, an average of \$2.1 million has been paid out of the RF to fund the industrial development charge grants. As

noted during the CIP Service Review, it is difficult to predict the number of targeted vs. non-targeted applications that will come forward in a given year.

### 6.1 Non-Targeted Industrial Uses

Non-targeted industrial uses receive a maximum development charge grant of \$250,000 equal to 50% of the development charge for the first \$500,000 paid. For example:

Table 1: Non-Targeted Industrial Use Development Charge Grant Example

| Building (Category)        | Applicable DC (\$) | Applicable Grant (%)   | DC Grant Amount | DC Payable by Applicant |
|----------------------------|--------------------|------------------------|-----------------|-------------------------|
| Warehousing (Non-Targeted) | \$600,000          | 50% (of \$500,000 cap) | \$250,000       | \$350,000               |

Staff undertook a review of the industrial building permits for 2015 to 2019 year to date to get an idea of the numbers of non-targeted industrial uses being constructed in the city.

Table 2: Non-Targeted Building Permit Data 2015 to 2019

| Year | Non-Targeted Building Permits (#) | Total DC Amount | Potential 50% Grant Amount |
|------|-----------------------------------|-----------------|----------------------------|
| 2015 | 2                                 | \$377,731       | \$188,865                  |
| 2016 | 5                                 | \$526,425       | \$263,213                  |
| 2017 | 7                                 | \$3,900,776     | \$1,386,674                |
| 2018 | 3                                 | \$184,597       | \$92,298                   |
| 2019 | 1                                 | \$25,047        | \$12,524                   |

Note: Excludes Industrial Use Exemptions

As expected, the number and size of the projects varies widely on a yearly basis. In 2019 year to date, one non-targeted industrial building permit was pulled resulting in development charges of \$25,047. In this instance, the applicants would pay 50% of the development charges and receive a grant for the other 50% (the grant is not provided to the applicant, but instead is a transfer from the Industrial Development Charges Incentive Program RF to the appropriate Development Charge RFs).

In 2017, the potential 50% grant is less than 50% of the total development charges amount because numerous building permits were issued where the applicants would have paid greater than \$500,000 in development charges, therefore, the grant would have been capped at the maximum of \$250,000.

Table 3 below summarizes the potential for savings by reducing the non-targeted industrial use grant amount. Staff used the data from Table 2 above to illustrate how much the City would have saved in grant payments if the grant was reduced from 50% to 25% and 0%.

Table 3: Non-Targeted Industrial Lands DC Grant Savings Illustration

| Applicant Pays |         |         |           |         |        |
|----------------|---------|---------|-----------|---------|--------|
| Year:          | 2015    | 2016    | 2017      | 2018    | 2019   |
| Full DC :      | 377,731 | 526,425 | 3,900,776 | 184,597 | 25,047 |
| 50% Grant      | 188,866 | 263,213 | 1,386,674 | 92,299  | 12,524 |
| 25% Grant      | 283,298 | 394,819 | 1,703,779 | 138,448 | 18,785 |
| 0% Grant       | 377,731 | 526,425 | 3,900,776 | 184,597 | 25,047 |
| City Savings   |         |         |           |         |        |
| 50% Grant      | 0       | 0       | 0         | 0       | 0      |
| 25% Grant      | 94,433  | 131,606 | 2,196,997 | 46,149  | 6,262  |
| 0% Grant       | 188,866 | 263,213 | 2,514,102 | 92,299  | 12,524 |

As expected, in years with low value building permit activity, any potential grant savings was also low (for example, 2015, 2016, 2018 and 2019). In 2017, due to the total amount of development charges calculated, if the grant was less, the City would have

saved more. However, it is important to note that in 2017, the grant was 100% (the applicants did not pay development charges) and it is impossible to know if the large warehouse building permits that were issued in 2017 would have materialized if anything less than a 100% development charges grant existed.

Finally, site selectors for non-targeted uses generally first look at the City-owned industrial lands because of the City's pricing strategy. It is difficult to predict how the industrial site selectors will react if the City were to further reduce the non-targeted grant program so soon after if it was reduced from a 100% to 50% grant and how any further potential reduction could devalue the attractiveness of the City-owned industrial land.

The Industrial Lands Development Strategy (ILDS) implementation team and the London Economic Development Corporation (LEDC) both received some push back from prospective purchasers and local developers when the non-targeted grant program was originally revised.

## **6.2 Targeted Industrial Uses**

The primary reason the Industrial Development Charges RF receives an annual contribution of \$2.2 million is to ensure enough grant funding is available if a large scale targeted industrial use is built, for example, the under construction Maple Leaf Foods processing facility on Wilton Grove Road. It is also important to maintain a balance in case there is a significant increase in targeted or non-targeted applications in a given year. As noted in Section 6.1, industrial building permits are not consistent on an annual basis.

Savings could be realized in the magnitude of \$400,000 to \$500,000 annually if the targeted industrial use DC grant was reduced from 100% to 75%; however, changing the grant amount could result in significant implications to the sale of London's industrial land including putting London at a serious competitive disadvantage to other municipalities in southwestern Ontario that offer a 100% development charge grant.

There is a real choice available for industrial development to go elsewhere (for example, Woodstock, Chatham, and Windsor) and any changes to the 100% targeted industrial development charge may make that decision easier for site selectors.

## **6.3 Future Review**

City Planning submitted its two-year work program to the November 4<sup>th</sup>, 2019 Planning and Environment Committee. Updating the ILDS is within the Planning Policy division work program with a targeted completion date of Q4 2020. During the review and update of the ILDS, Staff will also be reviewing the defined targeted and non-targeted uses within the ILDS and how they relate to the Industrial Lands CIP and its Development Charge Grant Program. During the ILDS review and noting the discussion in Sections 6.1 and 6.2, Staff will again be reassessing if the Industrial Development Charge grant for non-targeted uses should be reduced or eliminated, and if the targeted use grant should be reduced from 100% to a different percentage.

If changes to the grant funding is found to be appropriate during the ILDS Review, there is still the opportunity for three years of savings for this Multi-Year Budget beginning in 2021.

## **7.0 Performance Measures and Indicators of Success**

The CIP Service Review recommendations directed Civic Administration to amend all of the City's CIPs to include performance measures and indicators of success that align with current City policies and Municipal Council strategic directions. An information report updating Municipal Council on this project was submitted at the May 13, 2019 Planning and Environment Committee.

As part of the measures and indicators project, Staff are collecting extensive baseline data over multiple years related to the community improvement project areas. Staff are also developing targets for when and by how much to step-down the grant funding for the residential development charge grant program including a point in time when

funding for this program is significantly reduced or eliminated as it is deemed no longer necessary for downtown revitalization.

Finally, Staff are also determining sunset clauses for grant programs in order to provide the development industry with enough “heads up” on program changes to the Downtown and Industrial Lands CIPs to allow them to adjust their scheduling as needed to the forthcoming program changes.

Completion of the performance measures and indicators of success project is anticipated in 2020.

## **8.0 Conclusion**

At this time, it is premature to reduce the level of subsidy for the Downtown Residential Development Charges Grant program and the Industrial Lands Development Charges Grant program prior to the completion of the identified analyses and the finalization of the performance measures and indicators of success for the Downtown and Industrial Lands CIPs financial incentive programs.

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| 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 City Planning |  |

November 28, 2019  
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## Appendix A

**February 1, 2016 – Evaluation of Community Improvement Plan Incentives –** Report to Planning and Environment Committee to provide background on the legislative basis for municipal incentives and the CIPs that allow for such incentives, to describe the financial incentives currently offered by the City, to evaluate each program and recommend potential changes to be considered through a comprehensive CIP Service Review, documents the range of new incentive programs that have been posed that will be considered through the CIP Service Review, and recommends that no additional contributions be made to the incentive funding envelope beyond what has already been budgeted through the 2016-2019 budget submission.

**August 22, 2016 – Public Engagement Process for the Evaluation of Community Improvement Plan Incentives –** Report to Planning and Environment Committee to provide an update to Municipal Council on the consultation undertaken to date as part of the CIP Service Review, a description and evaluation of the current CIPs and programs, and a description and preliminary evaluation of the potential new CIPs and programs that have been proposed to Municipal Council for consideration.

**April 24, 2017 – Service Review of Community Improvement Plan Incentives –** Report to Planning and Environment Committee to update Municipal Council regarding the evaluation of current CIP programs and the results of the consultation process. This report concludes the CIP Service Review. This report also provides recommendations for Municipal Council's consideration on the range of financial incentives offered through the City's CIP programs, and recommended changes to those programs. The report also identifies next steps, including budgeting for both the revised and future programs, and subsequent amendments to the City's CIPs.

**May 13, 2019 – Community Improvement Plans – New Measures and Indicators of Success –** Information report to Planning and Environment Committee providing an update on the preliminary measures and indicators of success that Staff are now considering.

**July 29, 2019 – Review of City Services for Potential Reductions & Eliminations –** Report to Strategic Priorities and Policy Committee outlining the various service review initiatives recently undertaken by the Civic Administration to find cost savings and identifying considerations for other potential areas for review.