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TAX INCREMENT FINANCING (TIF)—STATUS UPDATE

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, October 21, 2005, from the Commissioner of Finance and the Commissioner of Planning and Development Services:

1. RECOMMENDATION

It is recommended that:
Council reaffirm its support for tax increment financing, subject to the Province's financial participation, as one of a suite of optional funding tools to assist the Region in meeting its urban structure objectives.

2. PURPOSE

The purpose of this report is to provide an update with respect to the provincial consultations on the implementation of potential tax increment financing legislation. The report also discusses how and why TIF might be used in York Region.

3. BACKGROUND

Tax increment financing has been discussed in several previous reports to Council as potentially one of a suite of tools for implementing the Region's Centres and Corridors Strategy. In addition, following its review of the report entitled "*Tax Increment Strategy for York Region*," the Finance and Administration Committee, at its meeting of April 7, 2005, authorized the Regional Chair to write the Minister of Finance supporting the use of TIF as a viable fiscal tool for supporting specific growth related development activities. Furthermore, it asked that the Province take this into consideration as part of its current budget deliberations.

In June 2005, the Province announced as part of its 2005-2006 Budget that it would consult with interested municipalities and others on the policy framework and potential legislation for tax increment financing. In a subsequent communication, staff from the Ministry of Finance indicated that it would create a background paper on TIF to be followed by a consultation process to be carried out during the summer of 2005.

3.1 Definition of TIF

TIF, for the purpose of the proposed Ontario legislation, refers to the use of incremental property tax to help finance/fund the cost of an "eligible" project that may include capital infrastructure or redevelopment activities. When a property is enhanced as a result of a TIF project, it is anticipated that the value of the property will also be increased and that there will be a corresponding increase in property taxes. This increment in property tax would normally be shared proportionately by the municipality(ies) and the school boards. However, with tax increment financing, some or all of this additional revenue would be redirected to support the specified infrastructure or redevelopment activity. TIF revenue may be used either directly ("pay-as-you-go") or to service debt used to finance the project.

3.2 TIF Experience Outside Ontario

In Canada, the City of Calgary was the first jurisdiction to approve and implement the use of TIF to redevelop the Rivers district in central Calgary. In April 2005, the city council approved the use of TIF to finance the revitalization project. This project includes the recent participation of the Province of Alberta through the contribution of the education tax component.

TIF has also been used extensively in the United States since the 1950s to help finance everything from rehabilitating blighted land to rapid transit.

As part of its preparation for the provincial consultations on this matter, staff reviewed numerous reports and studies from the US and Canada to develop an understanding of the breadth of TIF applications and features, and to form an appreciation of some best practices. The recommendations to the Province shown in Appendix I reflect this research.

3.3 Context for Using TIF in York Region

3.3.1 Places to Grow

Places to Grow, published in 2004 by the Ministry of Public Infrastructure Renewal, identified several areas within York Region as "urban growth centres" including the Markham Centre; Newmarket Centre; Richmond Hill/Langstaff Gateway; and Vaughan Corporate Centre. These centres were also identified in the follow-up analysis paper, *Urban Growth Centres in the Greater Golden Horseshoe*, released by the Ministry's Ontario Growth Secretariat, as part of a network of Greater Golden Horseshoe centres that are to be linked by "higher order transit and economic corridors" and which are the building blocks of the provincial urban growth strategy.

TIF was identified by the Province in the discussion paper that accompanied *Places to Grow* as a viable fiscal tool for implementing this growth strategy.

3.3.2 York Region Official Plan

Focussing growth and infrastructure investment in centres and corridors has been a key goal of York Region's Official Plan since its adoption in 1994. The Plan identifies regional centres linked by regional corridors using rapid transit as the backbone of its future urban structure. This coincides with the provincial growth and urban intensification strategy.

In 2004, Regional Official Plan Amendment 43 (ROPA 43) was adopted by Council that further advances the city-building model of development of centres and corridors. The policies of ROPA 43 are consistent with Regional, provincial and local municipal policies to achieve an urban form that is compact, transit supportive, pedestrian friendly and well designed.

York Region's Centres and Corridors Strategy identifies four broad action areas that will help create a climate where Centres and Corridors can be realized:

- Infrastructure Investment (e.g. transit, streetscaping, public building)
- Policies (e.g. ROPA 43, Key Development Areas)
- Financial Policy and Tools (e.g. DC's , TIFs, Corporate Tax Regimes)
- Supportive Programs (e.g. TDM, Parking Standards, Community Improvement Areas)

Making It Happen, a consultant study completed for the Region, concluded that there is no single action that will set the stage for the development of Centres and Corridors; rather, a broad array of actions is required. The study also concluded that the economic pro formas for both office and high density development with structured parking fall short of the profitability required for construction of new units.

As noted above, financial policies and fiscal instruments would have an important and influential impact on the Region's urban form, development pattern and economic development objectives. TIF in York Region can potentially be used as a powerful tool to trigger more compact development within regional centres and corridors.

3.3.3 Required Provincial Actions

The Region's Centres and Corridors Strategy as well as the document *Centres and Corridors Growth Management in the GTA* calls for a coordinated Provincial effort to ensure that the Places to Grow urban strategy is realized. Both documents call for a number of Provincial actions:

- Direct Provincial infrastructure investment particularly in transit and affordable housing.
- Planning Act revisions that allow for "as of right" mixed use development in fully approved Centres and Corridors secondary plans.
- Provincial financial tools such as TIFs, DC Act revisions and Community Improvement Area revisions.
- Examination of the Corporate and Property Tax regimes with a view to promoting mixed use development and investment in Centres and Corridors

3.4 Provincial Funding Required

The Region's existing funding sources are not sufficient to meet its and the Provincial objectives for compact urban development within the centres and corridors. The process of city building requires different funding arrangements. Regional Council, at its meeting of April 21, 2005, approved the following recommendation:

> *"It is recommended that the Regional Chair on behalf of Regional Council inform the Province of Ontario of the concern regarding the disconnect between the recent Provincial Policy Plans including the Greenbelt Plan and the Draft Provincial Growth Plan and the lack of Provincial commitment to long term infrastructure plans and financing."*
>
> ("*Required Provincial Funding, York Region 30 Year Infrastructure Projects."* Report 4, Clause 2, Planning and Economic Development Committee, April 21, 2005).

The *Development Charges Act* is just one example of legislation that penalizes growth municipalities through the use of 10-year historical level service standards as the basis for the calculation of development charges (DCs). For maturing growth municipalities such as York Region, services such as transit and EMS have only recently been introduced and therefore growth will only be partially funded from DC revenue.

While the Region will advocate for changes to the *Development Charges Act* through the current provincial review of the Act, even a revised Act will not provide the funding required to meet the Region's Official Plan and the Province's growth objectives. The sharing of federal and provincial gas tax revenues is a positive step to increase the revenue base of the Region; extending this revenue sharing to GST and PST would be a desirable expansion of the revenue generating capacity of the Region.

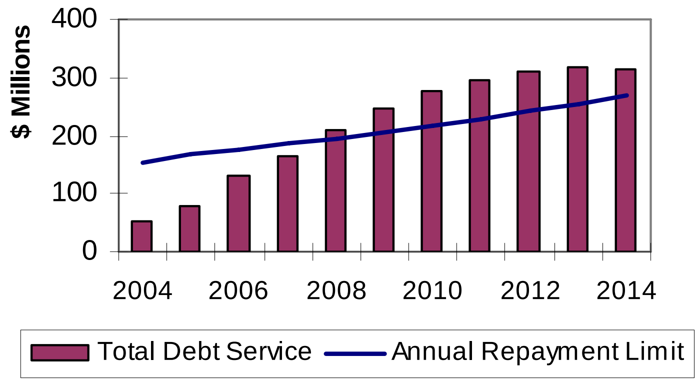
3.5 Infrastructure Challenges/Infrastructure Funding Gap

The Region continues to be challenged to fund the cost of capital infrastructure needed to support the growth and quality of life objectives of its residents, relying heavily on the use of "on credit" debt financing. Furthermore, the inadequacy of the development charges legislation will force the Region to fund a significant amount of its debt through the tax levy and user rates that could otherwise be funded from DCs.

For example, York Region's 2005 10-year capital budget projects expenditures of approximately $5.4 billion from 2005 to 2014, of which $1.9 billion (35.9%) is anticipated to be funded through debt. Included in this are planned expenditures for rapid transit of $2.2 billion that are contingent upon receiving 2/3 funding from the senior levels of government.

Figure 1

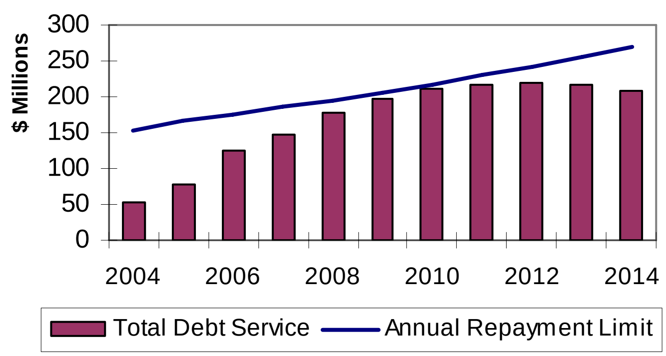
Debt Servicing Costs including Rapid Transit



Excluding any debt that would be needed to fund the Region's 1/3 share of rapid transit, the debt servicing costs needed to implement the capital budget are projected to approach the Region's statutory Annual Repayment Limit (ARL) around 2010. If Rapid Transit is included, the Region would reach its ARL by 2007. In addition, the heavy reliance on debt could have negative implications to the "AAA" credit rating currently enjoyed by the Region.

Figure 2

Debt Servicing Costs excluding Rapid Transit



As shown above, the current practice of exclusively using debt may not be an option for the funding of rapid transit. Supplementary sources of revenue and/or innovative financing methods need to be explored.

3.6 TIF Could Be Used to Support Debt and/or Be a Source of Supplementary Funding

It is anticipated that TIF will not be used to replace any existing source of funding but potentially used to support "off credit" project financing and/or used as a supplemental source of revenue. "Off credit" involves setting up new debt to an entity such as a municipal business corporation in a way that the credit rating of the Region is not affected. TIF in itself is not a new source of funding but rather, it is the reallocation of future tax revenue. Only when the tax revenue from the Region's taxing partners are added would there be supplemental funding for a TIF project.

TIF revenues alone may not be sufficient to cover the cost of significant infrastructure projects or redevelopment activities. Also, the timing and the absolute amount of future TIF revenue is uncertain. Therefore, it may be both necessary and judicious to apply more certain sources of funding to a project in conjunction with supplementary TIF revenue.

3.7 The Definition of Eligible TIF Projects

In the US, there has been a focus on "blight" as the qualifier for property to which TIF may be applied. Blight is not just contaminated property but, for example, may include property that is significantly under utilized (e.g. greyfields). York Region has been vocal in stating that the definition of eligibility for TIF projects needs to be sufficiently broad to encompass a variety of applications.

York Region's Centres and Corridors Strategy is an action plan that promotes the development of the planned urban structure of Regional centres and corridors. A new approach to developing these centres and corridors is required. TIF could be used as a strategic tool in contributing to this vision. Therefore, York has stated that the definition of eligibility should include the acceleration and intensification of development that is projected within the Region's Centres and Corridors.

4. ANALYSIS AND OPTIONS

4.1 TIF Consultations with the Province

The Ministry of Finance began its consultations with interested stakeholders in early October. The Ministry of Finance held four roundtable sessions: one in Hamilton, two in Toronto and one in Sault Ste. Marie. Staff from York Region met with the Ministry of Finance on October 11 in Toronto.

A variety of stakeholders were represented during the consultations including municipalities from across Ontario; economic development authorities; property developers and related trade associations; municipal associations such as AMO, AMCTO, MFOA, AMTCO, and OMAA to name a few. Overall, there was strong support for the concept of TIF, although participants varied in their views on how it should be implemented and what types of projects should be eligible.

As noted earlier, the position paper presented by Regional staff on how TIF should be implemented is attached as Attachment 1. In addition staff used the York Region Rapid

Transit Plan as an example of how TIF could be used to help finance capital needed to meet intensification objectives (see 4.2 below).

Provincial staff has indicated that they expect to summarize their findings in November and report to the Minister of Finance by the end of 2005. Any decision and potential TIF legislation will not be available until 2006.

4.2 How TIF Can Be Used

TIF could be applied in many ways to assist in achieving Regional planning objectives. The Centres and Corridors Strategy is an obvious example of an important Regional objective that will require new and innovative financial tools to create the compact urban form envisioned. TIF, in conjunction with other tools, could be an important means for attracting private sector investment within the centres and corridors.

The York Rapid Transit Plan (YRTP) is a good example of a type of project that is already underway to support intensification objectives. Furthermore, there are already many precedents in the US for using TIF as a means of funding bus rapid transit. The Town of Markham has also advocated for the use of TIF for structured parking as another means of meeting intensification objectives.

While rapid transit is presented as an example of a potential TIF project, other projects may be as or more suitable. Every project opportunity must be judged on a full business case.

4.3 An Example–The York Rapid Transit Plan (YRTP)

The YRTP is proceeding on four rapid transit corridors that will support inter-regional transportation and address changing travel patterns. The four transit corridors: Yonge Street, Highway 7, Vaughan North-South (Jane), and Markham North-South (Warden) will link the four regional centres and the transit hubs at the Downsview and Don Mills subway stations.

The YRTP is divided into three phases. Phase I, the “VIVA” initiative, is underway to implement rapid transit in the four corridors over a three year period. This early initiative is using existing roadways; “queue jumper” transit-actuated signal priority at intersections; new advanced technology transit stops; new service and intermodal stations; and new state-of-the-art buses.

VIVA commenced operation in September 2005 with a project funding commitment of $150 million, to be shared equally by the Region, the Province, and the Federal government. Phases II and III have been identified as next steps with the same federal, provincial, municipal sharing arrangement as Phase I; these subsequent phases cannot proceed until the required federal and provincial funding has been approved.

Phase II is the full service implementation of Bus Rapid Transit (BRT) incorporating dedicated bus running ways and all stations and terminals. This phase was initially estimated for completion by 2012. This full implementation phase has an estimated funding requirement of $1.5 to 2.2 billion in 2002 dollars.
Phase III is an anticipated response to the growth projections of the Region which would include Light Rail Transit (LRT) with subway links to the Yonge and Spadina TTC lines. The projected increment in cost is $2.4 to 4.1 billion (2002 dollars). U.S. research has shown that the greatest opportunity for TIF revenue will occur during Phase II and Phase III of the rapid transit project.

4.4 Business Case

As indicated in other parts of this report, there are a number of risks and opportunities associated with the use of TIF. Clearly all of the information required to make a full assessment is not yet available. Before any decision regarding the use of TIF is made by York Region, a full business case will have to be developed to assess the pros and cons. This business case will have to address the value of the uplift versus additional demand for services, any enlargement of the tax base in terms of size and diversity, the capability to realize the Region's urban form obligations as well as TIF's impact on our short and long term financial plans.

5. FINANCIAL IMPLICATIONS

There are no immediate financial implications for the Region; however, TIF, if implemented, could potentially be used as part of a future funding/financing strategy for projects such as rapid transit.

5.1 Potential TIF Revenue Using Rapid Transit Example

The determination of the potential incremental tax revenue (tax "uplift") that may be generated as a result of the proposed capital investment is an important step in assessing its feasibility as a TIF project. A high level TIF model has been developed that incorporates assumptions and projections produced by Regional staff and Hemson Consulting; however, **the broad assumptions used in this model would have to be reviewed in much greater detail prior to the recommendation of a potential TIF project**.

The following table presents the potential TIF revenues from 2006 to 2031 within the rapid transit corridors. It assumes that the 30% intensification targets of the Region's Official Plan are met and 100% of the revenue uplift from all levels of government, except for an adjustment equal to the impact of "natural growth," is captured.

Potential TIF Revenues 2006 to 2031	
Regional	$747 M
Provincial	$915 M
Local	$371 M
Total	**$2.0 B**

Source: York Region staff; Hemson Consulting

If intensification in the corridors was to reach the 40% target for York Region contained in the document *Draft Growth Plan for the Greater Golden Horseshoe*, the potential tax revenue uplift is projected to be $2.9 billion. Conversely, if there was a more modest 20% intensification in the corridors by 2015, without a proximity bonus, the potential tax uplift is projected to be only $305 million.

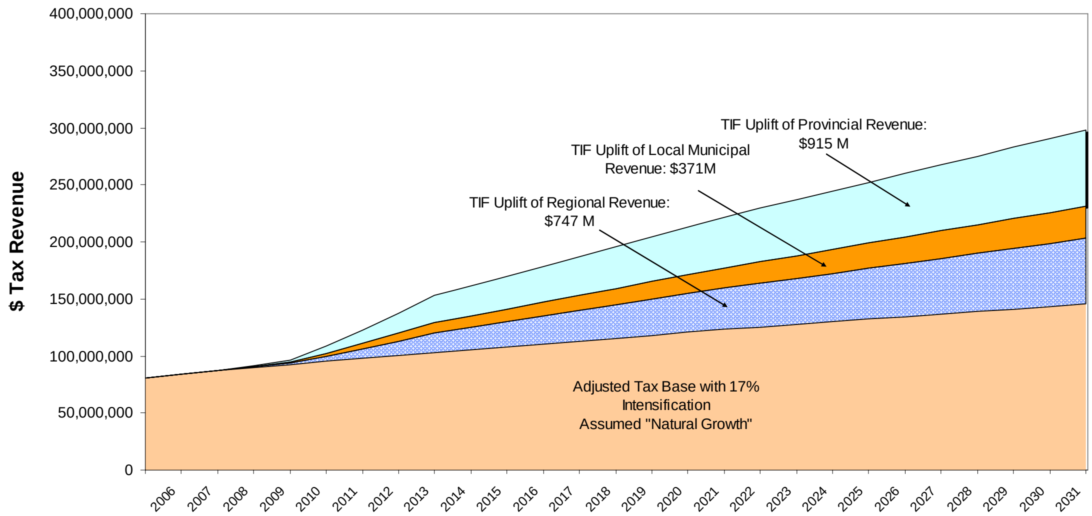
The above figures must be regarded as preliminary and should be used to represent an upper limit of TIF revenue that could be achieved using various intensification scenarios. As part of a future business case for using TIFs they would be subject to revision upon further research and analysis.

It should be noted from the following graph that the bulk of the TIF revenue will occur in the later portion of the TIF period. Furthermore, the $2.0 billion upside revenue does not take into account the cost of funding additional services (e.g. police, EMS, etc.) for growth over and above the "natural growth" that would have occurred in the corridors. The available TIF revenue would be less if:

a) growth does not occur as quickly as anticipated;
b) growth is not at the same intensity as projected;
c) the funding partners did not fully participate;
d) the proximity bonus was less than anticipated;
e) the Region required a larger portion of the potential TIF revenue to fund increases in other services resulting from the intensification.

Figure 3

Potential TIF Revenue at 30% Intensification from 2006-2031, Assuming Full Participation from the Province and Local Municipalities and a Proximity Bonus of 2.5% in years 2010 to 2013



5.2 Assumptions Used to Determine Potential TIF Revenue

- The model assumes that all three taxing jurisdictions participate for the full property tax assessed against properties in the corridor. The participation of the Province is considered to be the only viable option for the model.

- The TIF revenue shown in the model is the difference between the current tax revenue for the transit corridors, with an adjustment for “natural growth,” and the revenue from the projected 30% “intensification” objective of the Region’s Official Plan.

- **Natural growth** is considered to be the growth that will be achieved without further financial and policy intervention by the Region (approximately 17% intensification). The 17% represents the Region’s historical rate of intensification.

- **Intensification** refers to the percentage of all new development occurring within the Region that takes place within the Region’s built boundary. For the purposes of the model, it is assumed that the entire 30% intensification target would occur within the regional corridors. In reality it is anticipated that a certain amount of the intensification would occur within the larger built boundary (i.e. local centres and corridors).

- The intensification is assumed to increase from the base rate of 17% to the model rates of 30% by 2015, the date indicated in the Province's *Draft Plan* as the target for achieving the intensification objective.

- A **proximity bonus** has been shown to represent the increase in assessment value that arises from the proximity of a property to rapid transit and mixed use centres (i.e. people will pay more to live near rapid transit in an attractive mixed-use environment). Studies have shown that the proximity bonus may range from 10% to 40%. The model assumes a proximity bonus of 2.5% in each of the years 2010, 2011, 2012 and 2013 for a total of 10%. The years have been chosen to correspond to the proposed introduction of Phase II of the VIVA project.

- For this example, the boundary of the TIF zone is equal to 500 metres on each side of the Yonge Street and Highway 7 corridors.

- All assessment figures and tax rates are projected at 2005 rates with no escalation for reassessment or tax levy increases.

- It is assumed that 100% of the tax revenue uplift is used for the TIF project and for no other purposes.

6. LOCAL MUNICIPAL IMPACT

There are no current financial implications for local municipalities. The model assumes that the local municipalities are participating in the TIF project for the full portion of the local tax increment associated with the corridors.

7. CONCLUSION

The vision of city building in the Region Official Plan focuses on a system of Centres and Corridors in the Region. In order to realize this vision, the Region will have to invest in supporting infrastructure and helping to create a climate where the private sector will invest in compact mixed use development.

The vision of city building will require innovative new funding options, of which TIF must be considered as only one of a suite of financial tools required. TIF, in conjunction with other fiscal options, could provide a valuable tool for creating infrastructure and attracting private sector investment within the centres and corridors.

The role of the Province is critical in creating enabling legislation for these new financial tools, in participating as a partner in programs such as tax increment financing, and in revising and improving current fiscal and regulatory tools. Without the partnership of the

Province in a TIF project, there is currently not a lot of incentive for the Region to consider TIF as a viable fiscal tool.

The model for the rapid transit corridors indicates that potential incremental tax uplift could be as high as $2.0 billion for the 30% intensification scenario. This figure, however, is very preliminary and is subject to revision pending more detailed analysis.

Tax increment financing presents an opportunity to add an additional financing tool for the use of municipalities to achieve their planning and development objectives. Staff has supported the enabling legislation through its consultations with the Province.

It is recommended that Council continue to express its support for the implementation of tax increment financing as well as the Province's financial participation to help achieve the Region's urban structure objectives.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)