VAUGHAN

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Item # 4
Report No. 2 (PKI)
Council - May 27/14

memorandum

May 23, 2013

To: Honourable Maurizio Bevilacqua, Mayor and Members of Council

Re: Community Improvement Plan: A Strategic Tool to Support and Accelerate Office Development
Priority & Key Initiatives Committee, Item 4, May 12, 2014

This communication is being provided in response to a request from a Member of Committee for additional information on the financial implications of a potential Community Improvement Plan (CIP) to support office development in the Vaughan Metropolitan Centre (VMC) and other intensification corridors.

Economic benefits on the investment are high

The long terms effects of encouraging office developments, which will improve job development, employment diversification, quality of life, self-sufficiency with a well-balanced local economy are the primary returns on this investment. The economic multiplier effect, whereby employees and associated businesses input value to the local economy also provides the broader economic justification to seeing major office space as a desirable component of the VMC and other intensification corridors and will be the realized benefits of such an investment by the City.

The initial mode of investment by the City is achieved through moderate financial impacts realized over a fifteen year period. While the actual payback in "financial" terms to the City as a corporate entity is relatively low, there may be some minor positive financial effects on the community such as increasing the office related property tax base at an earlier point in time than originally forecasted and encouraging more cost efficient denser forms of office to develop. As mentioned above, the overall impacts should be viewed as an investment in economic development.

Staff have recommended the future activation of various financial incentive tools

Development Charge (DC) "Freeze"

A freeze on DCs applying to major offices has been proposed, which would see all major office developments qualifying under the CIP paying their City DCs at the rate previous to the 2013 update of the DC by-laws. This lesser rate would help to lower the capital costs of the project and will translate in to lower net economic rents going forward. The approximate cost of this investment is anticipated to be $4.4M spread over a 5 year period.

Cash-in-Lieu (CIL) of Parkland - 100% on Office

It has been proposed that the major offices, as well as the major office component of a mixed-use development, be fully exempt from CIL of Parkland. This will also contribute to a lower capital cost and therefore lower economic rents. Given that CIL of Parkland is based on land area and major offices in the VMC and other intensification corridors are expected to be built in denser forms, this exemption does not equate in to a large investment. It is anticipated that this investment will be approximately $0.3M spread over a 5 year period.

CIL of Parkland - Mixed Use Office / High Density Residential Discount

A discount on CIL parkland applying to the high density residential component of a mixed used development has been proposed. The discount would see one unit of residential be provided with the "old" CIL of Parkland rate ($4,100 vs. $8,500) for every 750 sq.ft. of major office included in the same development. In consultation with the development industry and industry experts, it is acknowledged that to ensure major office is viable it is quite often necessary to combine it with high density residential. The total capital cost of the project as a whole must be considered and therefore providing a discount on the residential portion should translate in to a lower capital cost overall and therefore provide for lower economic rents related to the office component. The anticipated investment will be approximately $8.7M spread over a 5 year period.

Tax Increment Equivalent Grant (TIEG)

A TIEG has been proposed that provides a grant for 70% of the City's Property Taxes in the first year of the office development's operation. The grant would decline in equal annual increments over the proceeding 10 years until the development is paying the full City taxes. This grant is targeted towards lowering the operating costs of a major office development thereby lowering the net economic rent rates required. Based on estimates, this will equate to an investment of $2.4M over a fifteen year period. *(While the individual TIEGs will only last for 10 years, it is expected that office buildings will be added over a 5 year period and therefore each property will begin a ten year cycle at different times, hence the spread over a fifteen year period).*

Investments are spread over a 15 year period; however they may be funded over an even longer period

The DC freeze and the TIEG tools are required to be funded. Their combined funding requirement is approximately $6.8M. There are several strategies available to Council to fund this economic development investment. One such strategy might be to increase property taxes by 0.25% in 2016 and this would fund the program over a 25 year period. Other options may exist as well, where smaller tax increases occur over a few years (e.g. 0.08% increase over three years). These strategies would be considered through the City's normal budgeting process and upon passing of the CIL By-law.

The CIL Parkland discounts are treated as foregone revenue and as stated in the PKI report, in consultation with Parks Development, staff believe that the City's ability to achieve a desired parkland level of service will not be adversely effected by this foregone revenue. The City's CIL of Parkland is currently in a healthy state and is able to absorb any short and medium term impacts of implementing the CIP investments. In the longer term, staff will continue to monitor the reserve, land market prices and its land acquisition strategy to ensure minimal impact on the land service levels.

Investing to bring the Vision to fruition

Office development within the VMC and other intensification corridors is of critical importance to achieving the City's vision for its new downtown and other urban areas. They need to include a healthy proportion of office and commercial uses that lend vibrancy throughout the day, and provide employment opportunities for residents.

In order to compete with established centres throughout the GTA and the country, and to maximize the investments that have already been made, the City needs to utilize all the tools and resources at its disposal to ensure that Vaughan is competitive and attracts the desired employees and economic sectors. The report to which this communication is related sets the stage for re-aligning the financial and planning tools to crystallize the VMC vision.

Sincerely,

John Henry, CPA, CMA
Commissioner of Finance & City Treasurer

Lloyd Noronha, CPA, CMA
Director of Development Finance & Investments

Copy: John MacKenzie, Commissioner of Planning
Tim Simmonds, Executive Director, City Manager's Office
Heather Wilson, Director of Legal Services
Jennifer Ladouceur, Director of Economic Development