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Urban Renewal and Community Revitalization: Tools That Can Help

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One of the greatest challenges facing municipal governments today is the need to stimulate economic development and urban renewal in the face of existing limitations on municipal government authority. To do so, municipalities are increasingly turning to innovative tools and techniques that are designed to encourage the private sector to participate in economic development and renewal activities.

Two of the main tools available to municipalities are Community Improvement Plans (CIPs) and Public-Private Partnerships (P3s). A new tool, which has yet to be used but shows great promise, is Tax Increment Financing (TIF). This article will briefly describe each of these tools and how they can be used.

COMMUNITY IMPROVEMENT PLANS (CIP)

CIPs have become the method of choice among municipalities to “jumpstart” redevelopment efforts. CIPs typically provide incentives to the private sector to drive improvements in a community.

In Ontario, section 28 of the *Planning Act* gives municipal governments broad authority to identify the economic, social, environmental or infrastructural needs of communities that are in decline and to develop tailor-made solutions at the grassroots level.

Single, lower tier, and prescribed upper tier municipalities can create CIP by-laws, so long as their official plans contain policies relating to community improvement. But, there are two prescribed steps that must be taken first:

- the council must designate a community improvement plan area, and then prepare a suitable plan (including goals, strategies, and incentives programs) for that area; and
- the council must consult with the Ministry of Municipal Affairs and Housing and hold at least one public meeting.

A large variety of options are available for financial incentives under a CIP. These include Tax Increment Equivalent Grants (TIEGs), development charge grants and grant and loan programs.

TIEGs Redevelopment typically increases the market value assessment of any given property once the redevelopment is complete. A TIEG provides grants or rebates to property owners to offset a portion of the property tax increase the owners will face as a result of the redevelopment. The TIEG is payable in instalments, typically over a 10-year period, with year one rebating 100 per cent of the tax increase, and the percentage declining over time.

DC grants DC grants have the advantage of providing costs that are clear and defined from the outset. Municipalities can implement a program of DC grants that are made on an annual basis after the completion of the development as a fixed amount rebate on the increased tax assessment resulting from the redevelopment.

Grant programs The Ontario *Planning Act* gives municipalities the power to design and administer any type of grant or loan program to pay for all or part of defined eligible costs. These can provide incentives to potential investors to overcome financial barriers to redevelopment. For example, the City of Oshawa has initiated a building permit fee grant program up to a maximum of $50,000 for building permit fees for residential development in a defined area of the city.[1]

Loan programs Loan programs tend to operate for the mutual benefit of the municipality (which receives a repayment of funds) and smaller scale developers (who may have difficulty securing financing). For example, the City of Niagara Falls has a tax-free residential loan program associated with its Downtown CIP.

PUBLIC-PRIVATE PARTNERSHIPS (P3s)

The public-private partnership (P3) is another way in which municipalities can team with private investors to implement a defined vision for a community area in need of improvement. The primary benefit of the P3 to the public sector is the financial support provided by private sources, which are not bound to the politics associated with the municipal budget.

P3s are effective and successful only where the municipality has a specific identified need or demand such as a sports complex and there is a private sector partner with the expertise to satisfy that need or demand such as a design/build firm.

As with all things municipal, the municipality must find its authority to enter into a P3 within an express legislative grant of power or arising by necessary implication from an express power. There are two express sources of authority that can be used by Ontario municipalities:

- the power to establish municipal service corporations through Ontario Regulation 599/06 under section 203 of the *Municipal Act, 2001*; and
- the power to enter into agreements dealing with municipal capital facilities under section 110 of the *Municipal Act, 2001*.

Ontario Regulation 599/06 imposes some conditions relating to the creation of a municipal service corporation, including the need to carry out a business case study and to consult with the public before incorporating. The regulation also imposes limits on the powers of such corporations.

Section 110 of the Act allows a municipality to “enter into agreements for the provision of municipal capital facilities by any person”. This would include a private sector entity, as well as any public sector agency that is also endowed with the powers of a natural person.

The types of permitted facilities include:

- facilities used by the council or for the general administration of the municipality;
- electrical facilities;
- municipal facilities for telecommunication, transit and transportation;
- waste management, water and sewer facilities;

- municipal housing facilities; and
- community centres, libraries and cultural facilities.

The range of permitted assistance that a municipality can provide to a person who has entered into an agreement to provide such facilities must relate directly to the provision, lease, operation or maintenance of the facilities that are the subject of the agreement.

A common misperception relating to P3s involving municipalities, particularly among those in the private sector, is that it provides a mechanism for business transactions that enable the P3 private sector partner to avoid the full capital cost of lands or buildings in developing a particular facility and to thereby enhance the overall profitability of the project. The reality, however, is that municipalities are statutorily prohibited from conferring a financial benefit on a commercial enterprise that is not available to other commercial enterprises (known as bonusing), unless expressly authorized to do so by statute.

TAX INCREMENT FINANCING

Tax increment financing (TIF) has gained widespread currency in many American jurisdictions and is starting to make its mark in Canada.

The way TIF generally works in the US is as follows. The municipality identifies an area in need of revitalization. The annual property tax revenue accruing to the authorities within this area is frozen at pre-revitalization levels for a number of years, during which time the incremental tax generated by redevelopment is used to back bonds issued by the public authorities to finance infrastructure improvements in the district. When the period of the freeze expires, the increased tax revenues then flow to the public authorities. This technique has been used very successfully in Chicago, as well as other American jurisdictions.[2]

A relatively new piece of Ontario legislation, the *Tax Increment Financing Act, 2006*, authorizes a municipality to apply to receive such funding from the province by preparing a feasibility study and submitting it to the minister. Once the project is designated and one or more tax increment finance districts are established, the municipality and the province can enter into an agreement that would allow the municipality to direct a portion of the anticipated increased property taxes resulting from the project to fund the project.

While TIF under this Act does not appear to have been used in Ontario to date, the City of Toronto and Waterfront Toronto have indicated that they will pursue opportunities to implement TIFs in the development of the East Bayfront and West Donlands.[3] This means other Ontario municipalities may get to watch and learn from the Toronto experience.

CONCLUSION

The challenge of building economically sustainable local communities that will attract and maintain businesses, jobs, and residents is one that all municipalities face. However, with a little creativity and the right incentive or partnership arrangements, municipal governments can leverage a number of tools to revitalize their communities, attract and retain jobs, and make their communities better places to live.

[1] City of Oshawa, Downtown Shoulder Area Renaissance Community Improvement Plan (2006), p. 19.

[2] See www.gfoa.org/downloads/UrbanRevitalizationandTIFinChicago.pdf.

[3] City of Toronto By-law No. 518-2008, to adopt the Waterfront Community Improvement Plan for Brownfield Remediation and Development of Prescribed Employment Uses, p. 12.

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