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Desta McAdam, Manager, Policy Planning
Engineering and Development Services
Report No. PP-2021-32
June 14, 2021

To: **Mayor and Members of Council**

Subject: **Community Improvement Plan Implementation: Financial Analysis**

Recommendation:

"THAT pursuant to the Manager, Policy Planning's Report No. PP-2021-32, the recommendations of the Addendum to the April 2020 Financial Analysis Memo prepared by Dillon Consulting Ltd. be approved; and

THAT all Community Improvement Plan (CIP) programs except the building permit and development charge rebate programs (1, 2, 7, 15 and 16) shall be initiated in Year 1 of the CIP."

Strategic Plan Alignment:

The City of Belleville's Strategic Plan identifies nine (9) strategic themes. The CIP specifically aligns with the City's strategic objectives to provide for a variety of housing forms to reflect changing demographics and need for affordability, encourage the creation of a vibrant downtown, accented with pedestrian-friendly services and unique residential and commercial opportunities, and promote the City's core as a centre for government, financial, legal and related services.

More broadly, the CIP aligns with all nine (9) strategic themes of this Plan, as the new CIP is intended support the Strategic Plan's priorities to maintain economic stability, protect the health and security of our citizens, and support growth. Furthermore, the CIP will assist towards achieving the community vision which underpins this Plan, being that the City of Belleville will be a healthy, progressive, diverse and economically vibrant community that invests in its future in a financially sustainable and environmentally responsible manner."

Highlights:

- December 2020, a new Community Improvement Plan (CIP) was approved for the City of Belleville;
- Preliminary financial analysis was conducted in April 2020 to determine the potential financial burden of the CIP programs;
- Financial analysis for the CIP determined that the CIP could incentivize the creation of 544 new affordable rental units, which will assist Council in reaching its target of 1000 new rental units (both affordable and market rate) by 2025;
- Addendum to the initial financial analysis was prepared to consider recommended budget inputs to the CIP which considers an overall budget of approximately $13 million for the housing and downtown portions of the CIP programs;
- Budgetary input would begin with $850K plus $85K for façade programs in Year 1 of the CIP, and increase annually;
- Second Unit programs would account for $100K of the yearly budget;
- Existing annual program specific budgeting of $85K for façade program would be retained;
- Existing annual budget of $50K for Brownfield programs would be retained and held in a separate account that does not draw from the overall $13 million expenditure; and
- The Addendum to the initial financial analysis provides a guide for the CIP implementation, but will vary depending on actual annual application approvals and funding contributions approved by Council through the operating budget process.
- A staff report regarding the CIP Financial Analysis was considered by the Finance Committee, and the Committee has provided a positive recommendation to Council; and
- At any time, Council can decide not to fund CIP program(s).

Background:

<u>Community Improvement Plan</u>

A new Community Improvement Plan (CIP) was approved for the City of Belleville in December, 2020. The new Community Improvement Plan introduces a total of seventeen (17) new and updated programs to incentivize new development, redevelopment and brownfield remediation.

Each of these programs presents a potential cost to the City, and the potential financial implications of these programs must be understood and carefully weighed to ensure maximum benefit for the City.

CIP Financial Analysis Memo, April 2020

To prepare for the implementation of the Community Improvement Plan (CIP), Dillon Consulting Ltd., prepared a financial analysis to help staff understand the financial impact of each proposed incentive program (Attachment #1). The analysis provided a scenario-test that demonstrated the financial implications of operationalizing the Affordable Rental Housing and Downtown components of the CIP, assuming that all programs would be immediately active. The analysis was broken down by year to show the potential cost of the program for each year of a 10 year cycle. This included the phase-out costs associated with a Tax Increment Equivalent Rebate (TIER) program, which is assumed to last ten (10) years from the date it commences.

Using the Council target of creating 1000 new rental units (both affordable and market rate) by 2025 as part of their considerations, Dillon estimated that ideally, the CIP could directly incentivize the creation of 544 new rental units through its programs. The projected 544 new units consist of a mix of rental unit types, including mid-to-high rise purpose built rental apartments, second units in new houses, second units in existing houses, affordable units in Downtown buildings, and other residential units in Downtown buildings.

The financial model considered that different programs offered by the CIP would be accessed in order to achieve this mix and number of unit types. The model also considered that if an applicant was approved for TIER funding, a ten-year program, the commitment period by Council could extend up to nine years beyond the ten-year lifespan of the CIP. For example, if an approved project entered into an Agreement with Council, and received its first year of funding under a TIER program in the last (tenth) year of the CIP, this cost would be repeated for nine additional years after the completion of the CIP.

In the financial analysis, the key observations were as follows:

- The Year 1 cost to the City would be $1,341,303;
- The peak cost to the City would be $1,731,376 in Year 9;
- The average cost to the City over the 19-year period would be $708,962;
- The grand total cost to the City would be $13,470,282; and
- The average cost per new housing unit created (an assumed total of 544 new units) would be $24,568.53 (excluding the costs associated with non-residential unit based incentives).

Addendum to the April 2020 Financial Analysis Memo, March 2021

The April 2020 financial analysis demonstrated that the full suite of CIP programs offered the potential for a significant stimulus of affordable housing and downtown revitalization. It also suggested a potential burden of approximately $13 million dollars over twenty years. The analysis assumed that all programs would be immediately available, which would require significant financial input at the outset of the CIP's implementation.

Based on input from senior Finance Department staff, and a review of budget allocations previously granted to programs in the former CIP, including the City's successful façade improvement and brownfield programs, staff requested that the financial analysis be updated to include more consistent budgetary allocations.

Dillon Consulting prepared an Addendum to the April 2020 Financial Analysis Memo, hereinafter referred to as "the Addendum" (Attachment #2).

The Addendum is based on the following assumptions:

- An overall budget of approximately $13 million for the affordable rental housing and downtown CIP programs, which is intended to provide funds to cover the extent of the programs over a duration of ten years;
- The budgetary input will begin with $850K in Year 1 with an additional annual program-specific budget of $85K for the façade improvement programs held in a separate account;
- An existing annual budget of $50K for the brownfields programs is retained, which is held in a separate account that does not draw from the $13 million budget;
- All programs except the building permit and development charge rebate programs (1, 2, and 7) will be initiated in Year 1[1] ; and
- Unused funds in any given year will carry forward in reserve for use in future years.

The Year 1 CIP budget of $850K for the housing and downtown programs described in the Addendum aligns with the approved 2021 CIP budget, which includes $350K in reserve funds from 2020, and the 2021 contribution of $500K. Additionally, Council has committed 85K held in a separate account for the façade improvement programs.

The financial modelling process has highlighted two key implementation matters for the CIP which must be addressed, as they will impact how the CIP can be best utilized to achieve its community improvement goals:

[1] The Addendum did not consider Brownfield Program Activation

1. From a cash-flow standpoint, offering all seventeen CIP programs from the onset of the CIP would be financially demanding on the City. It is necessary to understand the potential financial impacts and opportunities of each CIP program.

2. Some CIP programs consider complex year-over-year budget implications. In order for Staff to optimize the incentives offered, and provide financially sound recommendations to Council it is essential to have a clear direction that Council is committed to fulfilling the expected $13 million dollar investment in the affordable rental component of the CIP over a ten-year period.

Discussion:

Program Activation

Based on the findings of the initial financial analysis, from a cash-flow standpoint, offering all housing and downtown programs from the onset would require an investment of over $1.3 million for Year 1 of the CIP. The Addendum highlighted that the TIER programs will have a cumulative impact, and will have a significant draw on available funding.

It is the opinion of Staff that the TIER programs will be the most financially impactful method of incentivizing eligible rental housing projects, and should be the focus for the initial years of the CIP. To ensure sufficient budget is available from the onset of the CIP to award TIER funding, Staff recommend that for the initial years of the CIP, the building permit and development charge rebate programs for the housing and downtown portions of the CIP (programs 1, 2 and 7) be paused. When sufficient funds exist in the CIP reserve funds account to support these programs, they can be re-activated.

As indicated in the Addendum, the Brownfield CIP programs would continue to operate out of a separate budget of $50K. Since the budget is limited, Staff also recommend that the Brownfield building permit fee reduction and development charge deferral programs (programs 15 and 16) also be paused. The Staff Working Group will make recommendations to Council for the remaining brownfield programs, based on the available funding.

Budget Scenario

The financial analysis conducted to date projects a $13 million total expenditure for the lifespan of the CIP. This total expenditure is based on a goal of creating 544 new rental housing units. While it is understood that the financial modelling completed to date will not project the exact budget scenario for the City with respect to the CIP, it does provide a useful roadmap for the City to discuss and plan for the potential financial impacts of meeting the City's community improvement goals.

Accordingly, Staff recommend that Council approve the recommendations of the Addendum so that the basis for a ten-year funding commitment to the CIP by

Council is formally established. This commitment will help staff bring forward recommendations for TIER programs, which require multi-year financial commitments. It will also help Staff provide recommendations regarding program activation.

Should local priorities change, future Councils will still have the ability to cancel this commitment. Although cancellable, this commitment will enable staff to optimize the community improvement opportunities by making effective recommendations that are financially sustainable.

Financial/Analysis:

The Addendum provides a budget scenario for the housing and downtown programs, starting with a Year 1 budgetary input of $850K, plus an additional $85K specifically for façade improvement programs. It also incorporates staff recommendations regarding maximum annual allocations for various CIP programs.

The longer term budget scenario provided in the Addendum focuses on the cash flow of programs at a high level. It is intended to help the City understand the availability of funding for the more complex programs to aid with decision-making on whether to offer them or not, and also on how many incentives can be sustainably offered annually, assuming an incremental increase in the annual budget for year of the CIP. Accordingly, the budget scenario discussion included in the Addendum, including the figures presented in Table 2, represent theoretical outcomes, based on hypothetical program uptake.

CIP program uptake may differ from the budget scenario described in the analysis. The City's CIP Working Group, which will include a senior member of the Finance Department, will update the cash-flow analysis, and provide more specific budgetary recommendations to Council annually, during operating budget deliberation. Staff may also provide recommendations based on maximizing program benefits. For example, if the second unit programs receive strong uptake, more money from the approved budget could be re-allocated to support these programs.

<u>Finance Committee Motion</u>

One May 12th, 2021, the Finance Committee met and considered the financial analysis completed to date for the CIP, as well as Staff Report PP-2021-20.
At this meeting, the following Motion was approved by the Committee:

That the Finance Committee recommends the following to City Council:

"THAT pursuant to the Manager, Policy Planning Report, Council endorses the recommendations of the Addendum to the April 2020 Financial Analysis Memo prepared by Dillon Consulting Ltd. in principle;

AND THAT all CIP programs except the building permit and development charge rebate programs (1, 2, 7, 15 and 16) shall be initiated in Year 1 of the CIP."

Conclusion:

The purpose of this analysis completed to date is to provide a road map and potential funding plan to deliver 544 new rental units and assist in understanding the availability of funding and maximize decision-making in the incentive approval process. The analysis outlined provides a guide for the program, but will vary depending on actual annual application approvals and the approved funding contributions through the operating budget process.

Since the operationalization of CIP programs requires significant and long term financial commitment, Council's approval of the recommendations in the Addendum will provide a clear direction for staff to manage the total financial burden of the CIP over a ten-year period. The activation of all CIP programs except the building permit and development charge incentive programs (programs 1, 2, 7, 15 and 16) in Year 1 is in alignment with the recommendations of the Addendum.

Respectfully submitted,

Desta McAdam

Desta McAdam, MCIP, RPP
Manager, Policy Planning
Engineering and Development Services

Attachments:
1. CIP Financial Analysis Memo
2. CIP Addendum to the April 2020 Financial Analysis Memo

Belleville Affordable Rental Housing and Downtown CIP

Financial Analysis Memo

April 20, 2020

Dillon Consulting (Dillon) has conducted a financial analysis of the proposed incentive programs for both the Affordable Rental Housing Community Improvement Plan (CIP) and the Downtown Revitalization CIP. The proposed incentives can be found in the 'Interim Report' dated January 28, 2020. Having identified a series of incentives, it is important to determine the implications these incentives may have on municipal finances. A financial analysis plays a critical role in helping the City understand the potential financial impact of each incentive.

The financial analysis is broken down by year, to show the potential cost of the program for each year of a 10 year cycle. This includes the phase out costs associated with a Tax Increment Financing (TIF) program, which is assumed will last 10 years from the date it commences. This means that if there was an application in year 10 of the CIP, the costs associated for the program would continue for an additional 10 years beyond the expiry of the TIF program.

While Dillon is unable to estimate the full costs of the CIP incentives through their proposed 10 year life span, having an initial understanding of these figures may help the City determine the yearly budget allotted to the programs.

This memo provides a breakdown of what factors were considered in preparing the financial analysis, the assumptions that were made and a summary of the anticipated costs that both of the Affordable Rental Housing and Downtown CIP incentive programs could be for the City.

Key Assumptions and Costs for Each Incentive Program

Dillon needed to make a number of assumptions to estimate the costs of the program. These assumptions are listed below and separated out by program.

Affordable Rental Housing CIP

Types of Development Contributing to Affordable Housing Stock

The intention of the Affordable Rental Housing CIP programs are to encourage the creation of more affordable rental units throughout the City. To determine the potential financial impacts, Dillon needed to identify the many different types of affordable rental units that could benefit from the proposed incentive programs. The various types of development that could contribute to the affordable rental housing stock, and the assumptions for each type, are as follows:

- **Mid-rise Apartment**

  A mid-rise apartment refers to a typical medium density development. For the purposes of this financial analysis, a mid-rise apartment building was assumed to have 15 affordable 2-bedroom units, and 15 affordable 1-bedroom units. The assumed square footage of a 1-bedroom apartment is 650 square feet. The assumed square footage of a 2-bedroom apartment is 850 square feet.

- **50% Pro-rated Mid-rise Apartment**

  Some mid-rise apartments may only provide a portion of their units as affordable. For the purposes of this analysis, a pro-rated mid-rise apartment was assumed to be 50% affordable rental units. A 50% pro-rated apartment building was assumed to have 7 affordable 2-bedroom units and 8 affordable 1-bedroom units. This is based on the assumption that a mid-rise building has 30 units with 50% of the units being 2-bedroom.

- **High-rise Apartment**

  A high-rise apartment refers to a typical high density development. For the purposes of this financial analysis, a high-rise apartment building was assumed to have 32 affordable 2-bedroom units and 64 affordable 1-bedroom units. The assumed square footage of a 1-bedroom apartment is 650 square feet. The assumed square footage of a 2-bedroom apartment is 850 square feet.

- **30% Pro-rated High-rise Apartment**

  Some high-rise apartments may only provide a portion of their units as affordable. For the purposes of this analysis, a pro-rated high-rise apartment was assumed to be 30% affordable rental units. A 30% pro-rated apartment building was assumed to have 10 affordable 2-bedroom units and 19 affordable 1-bedroom units. This is based on the assumption that a high-rise building has 96 units, with 30% of the units being 2-bedroom.

- **New Second Unit (New Home)**

  Rental units may also be provided in the form of a second unit. This type of development refers to new homes with purpose built second units. For second units (basement suites or carriage houses), the GFA was assumed to be approximately 900 square feet These units do not need to be affordable rental units to benefit from these incentives, as the increase in housing stock is assumed to contribute to the reduction of rental prices. If a homeowner decides to list this unit as an affordable unit, they may be eligible for an additional grant, as outlined in the section below.

- **New Second Unit (Existing Home)**

  Some rental units may be provided in existing homes. Home owners may wish to build a carriage house or create a legal second suite in the home's basement. For second units (basement suites or carriage houses), the GFA was assumed to be approximately 900 square feet. These units do not need to be affordable rental units to benefit from these incentives, as the increase in housing stock is assumed to contribute to the reduction of rental prices. If a homeowner decides to list this unit as an affordable unit, they may be eligible for an additional grant, as outlined in the section below.

- **Affordable Downtown Unit**

  Some buildings located in the Downtown area of Belleville (for example, along Pinnacle Street and Front Street) have space available above the ground floor commercial uses. These units may be converted to single dwelling units.

Development Charge Rebate

- Eligible affordable rental housing developments include:
  - Purpose built, and pro-rated mid-rise apartments; and
  - Purpose built, and pro-rated high-rise apartments.
- Based on a review of the City's Development Charges By-law, the development charges for a 2-bedroom unit would be $8,913. For a 1-bedroom unit, the charges would be $4,916.
- For the purposes of this exercise, yearly increases in Development Charges were not factored in to the final calculation.

Building Permit Fee Rebate

- Eligible affordable rental housing developments include:
  - Purpose built, and pro-rated mid-rise apartments;
  - Purpose built, and pro-rated high-rise apartments; and
  - New second units in new and existing homes.
- Building permit fees in the City of Belleville are based on the GFA of the overall development.
- The square footage was multiplied by the number of assumed units in each building. An additional 10% of square footage was then added to account for hallways, stairs, etc.
- Based on an estimate of construction costs, the cost per square foot in a mid-rise building (up to 6 storeys) is $210 per square foot. The cost per square foot in a high-rise building (over 6 storeys) is $225 per square foot. For second units in new or existing homes, the cost is $145 per square foot.
- Based on the City's Building Fees By-law, the cost of a building permit would be $10 per $1,000 construction value.
- Based on the above, for a mid-rise apartment, the building permit fees would be $51,975. For a 50% pro-rated mid-rise apartment, the building permit fees would be $25,756.50. For a high-rise apartment, the building permit fees would be $170,280. For a 30% pro-rated high-rise apartment, the building permit fees would be $51,603.75. For a second unit, the building permit cost would be $1,305.
- For the purposes of this exercise, yearly increases in building permit fees and increases in the cost of construction materials were not included as part of this calculation.

TIF

- Eligible affordable rental housing developments include:
  - Purpose built, and pro-rated mid-rise apartments;
  - Purpose built, and pro-rated high-rise apartments; and
  - New affordable residential units downtown.
- To determine the estimated costs for the TIF program, examples of pre- and post-development lots needed to be gathered to compare the increase in the municipal portion of taxes.

- Lots selected for the pre-development taxes were vacant lots of a similar size to those occupied by mid and high rise apartments. Lots selected for post-development taxes were examples of mid- and high-rise apartments.
- For affordable second unit's downtown, the tax value of an existing commercial development was selected. For a post-development scenario, the tax value of a commercial development with a residential development was used.
- The examples that were selected are shown in the table below, along with their assessed value:

Scenario	Example Vacant Lot	Example Development Lot
Purpose Built Mid Rise Apartment	56/58 South Church Street $142,000	24 Starling Street $1,154,000
Purpose Built High Rise Apartment	180 Coleman Street $325,000	201 Palmer Road $14,124,000
New Affordable Second Unit Downtown	338 Pinnacle Street $190,000	390/392 Front Street $190,000 + $147,300 (commercial) + (Residential)

- The 2019 municipal tax rate was used for residential uses. This is 0.01485294.
- For the affordable second unit downtown, the commercial tax rate needed to be applied to the commercial portion of the store and the residential tax rate to the residential portion of the store. The commercial tax rate is 0.0285046.
- The assumed length of the TIF program is set at 10 years. For simplicity of administering the TIF program, Dillon assumed that the municipal portion of the property tax payment would effectively be frozen until the end of the TIF program. As such, the TIF waived per year would not increase, but would remain constant – thereby reducing the burden on staff to recalculate the TIF amount waived every year due to changes in the tax rate and/or assessed value.
- The yearly municipal portion of the property tax payment that would be waived for a mid-rise apartment was calculated to be $15,031.18. For a 50% pro-rated mid-rise apartment, this would be $6,461.03.
- The yearly municipal portion of the property tax payment that would be waived for a high-rise apartment was calculated to be $204,955.72. For a 30% pro-rated high-rise apartment, this would be $58,107.67.
- The yearly municipal portion of the property tax payment that would be waived for a second unit downtown was calculated to be $2,187.84.
- The TIF program needed to also include a phase out period. If an applicant applied in year 10 of the CIP program, they would then have 10 years of tax incentives to benefit from. This essentially means that the final calculations show a 10 year incentive program period, and a subsequent 10

year phase out period where the City is still responsible for the costs associated with the TIF program.

Second Units

- The second unit incentive provides a grant to the owner of a home who decides to either a) include a second unit as part of a new development purchase, or b) construct a new second unit in an existing dwelling, and they provide that unit at or below the average market rent.
- This grant is assumed to cost the city $500 for every second unit application.
- Second units would also be eligible for the other financial incentives noted above:
  - Building Permit Fee Rebate

Accessibility Top Up

- Any affordable unit that is designed to be accessible for persons with disabilities, may be eligible to apply for an accessibility grant top-up. For each accessible unit (mid-rise, high-rise or second unit) the grant is assumed to be $2,500.
- Affordable, accessible units would also be eligible for the other financial incentives noted above:
  - Development Charge Rebate
  - Building Permit Fee Rebate
  - TIF
- The number of accessible units per type of development is assumed to be the following for both fully-affordable apartments and prorated apartments:
  - 8 units per mid-rise apartment
  - 4 units per 50% pro-rated mid-rise apartment
  - 12 units per high-rise apartment
  - 4 units per 30% pro-rated high-rise apartment

Downtown Revitalization CIP

Façade Improvement & Rear Façade Improvement Program

- The façade improvement program is assumed to provide a 50% grant towards the cost of the project to the applicant to a maximum of $15,000. For the purposes of this calculation, the maximum number has been assumed.
- The rear façade improvement program is assumed to provide a 50% grant towards the cost of the project to the application to a maximum of $10,000. For the purposes of this calculation, the maximum number has been assumed.

Residential Development Rebate

- The residential development rebate is assumed to be the same as the building permit fee rebate as outlined above in the Affordable Rental Housing CIP. The building permit fees waived for each residential unit development downtown is estimated to be $1,305.

TIF

- The TIF for residential unit developments downtown is the same as the TIF grant for affordable units downtown, as outlined above in the Affordable Rental Housing CIP. The municipal portion of the property tax payment waived each year for a new residential development downtown is estimated to be $2,187.84.

Fire Retrofitting Rebate

- For every building downtown that undertakes an improvement to fire retrofit a building, the City may provide a one-time grant. The grant is assumed to be $1,000.

Assumed Number of Projects

To calculate the overall costs of these incentives for the City, Dillon needed to make some assumptions around the number of projects in the City that would take advantage of each of the above programs. The number of assumed projects is shown in the table below.

The table is broken down by year over a 10-year period (the length of the CIP incentive program).

Without Prejudice. For Discussion Only.

Table 1: Assumed Number of Projects per Year

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
	Assumed Projects Accessing Affordable Rental Housing CIP Programs										
Mid-rise Apartment	1		1			1		1		1	5
High-rise Apartment	1				1				1		3
50% mid-rise Apartment			1				1				2
30% high-rise Apartment						1					1
New second unit (new home)	2	2	2	2	2	2	2	2	2	2	20
New second unit (existing home)	1	1	2	2	1	1	2	2	1	1	14
Affordable Downtown Unit	1		1		1		1		1		5
	Assumed Projects Accessing Downtown Revitalization CIP Programs										
Façade Improvement		1			1	1			1		4
Residential Unit Downtown	1		2		2		1		2		8
Fire Retrofit	1			1		1		1		1	5

These numbers were determined in collaboration with the City and based on our understanding of the frequency of certain types of developments.

Summary of Costs

To calculate the cost to the City of each project, Dillon identified which incentives each application would be eligible to apply to. These costs were added together to understand how much a single project would cost the City per calendar year. This is shown in the tables below:

Table 2: Affordable Rental Housing CIP Costs per Project Type

Project Type	DC Rebate	BP Rebate	TIF*	Second Unit	Accessibility	TOTAL
Mid-rise Apartment	$207,435	$51,975	$15,031.18 [150,311.80]*		$20,000	$294,441.18
High-rise Apartment	$599,840	$170,280	$204,955.72 [$2,049,557.20]*		$30,000	$1,005,075.72
50% mid-rise Apartment	$101,719	$25,756.50	$6,461.03 [$64,610.30]*		$10,000	$143,936.53
30% high-rise Apartment	$182,534	$51,603.75	$58,107.67 [580,076.70]*		$10,000	$302,245.42
New second unit (new home)				$1,805	$2,500	$4,305
New second unit (existing home)				$1,805	$2,500	$4,305
Affordable Downtown Unit			$2,187.84 [$21,878.40]*		$2,500	$4,687.84

* As the TIF is a 10-year program, this cost will be repeated for 9 additional years, for each assumed application. The costs above reflect the base cost for each application only. The cost shown in parenthesis is the actual TIF incentive that is assumed be distributed across the 10 year period.

Table 3: Downtown Revitalization CIP Costs per Project Type

Project Type	Façade Improvement	Rear Façade	BP	TIF*	Fire Retrofit	TOTAL
Façade Improvement	$15,000	$10,000				$25,000
New Residential Unit			$1,305	$21,878.38 [$218,783.80]*		$23,183.38
Building Performance					$1,000	$1,000

* As the TIF is a 10-year program, this cost will be repeated for 9 additional years, for each assumed application. The costs above reflect the base cost for each application only. The cost shown in parenthesis is the actual TIF incentive that is assumed be distributed across the 10 year period.

Using the cost per project assumptions outlined above, Dillon was then able to multiply the total incentive costs per development type by the assumed number of projects per year. Dillon then added on the additional TIF payments to the following 9 years for each application that took advantage of the TIF program from the Affordable Rental Housing CIP and the Downtown Revitalization CIP.

The summary of these costs can be seen in the tables below.

Table 4: Summary of CIP One-Time Costs

Development Type	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affordable Rental Housing One-Time CIP Program Costs (excludes 2nd to 10th year of TIF payments)										
Mid-rise Apartment*	$294,441.18		$294,441.18			$294,441.18		$294,441.18		$294,441.18
High-rise Apartment*	$1,005,075.72				$1,005,075.72				$1,005,075.72	
50% mid-rise Apartment*			$143,936.53				$143,936.53			
30% high-rise Apartment*						$302,245.42				
New second unit (new home)	$8,610	$8,610	$8,610	$8,610	$8,610	$8,610	$8,610	$8,610	$8,610	$8,610
New second unit (existing home)	$4,305	$4,305	$8,610	$8,610	$4,305	$4,305	$8,610	$8,610	$4,305	$4,305
Affordable Downtown Unit*	$4,687.84		$4,687.84		$4,687.84		$4,687.84		$4,687.84	
Downtown Revitalization CIP Program Costs (excludes 2nd to 10th year of TIF payments)										
Façade Improvement		$25,000			$25,000	$25,000			$25,000	
Residential Unit Downtown*	$23,183.38		$46,366.76		$46,366.76		$23,183.38		$46,366.76	
Fire Retrofit	$1,000			$1,000		$1,000		$1,000		$1,000

* these projects are eligible for the TIF Incentive. Additional costs apply to these programs per year and are shown in the table below.

The table above shows the expected one-time costs per year for each development type. Each cost is the total amount that each project can apply for across all the incentive programs. For each project that is eligible for the TIF Incentive, Dillon needed to calculate the waiver amount for the 2nd to 10th year of each project ("phase out costs"). These calculations are shown separately below and show the total TIF that needs to be accounted for in each subsequent year. For example, in year 1, Dillon assumed the development of 1 mid-rise apartment, 1 high-rise apartment and 1 affordable downtown unit. The total waived taxes ($15,031.18 for the mid-rise, $204,955.72 for the high-rise and $2,187.84 for the downtown unit), were then added together. This resulted in a total of $222,174.73 of waived taxes that also needed to be factored in to year 2.

Table 5: Summary of Yearly TIF Phase Out Costs

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Affordable Housing TIF Phase-Out Costs	n/a	$222,174.73	$222,174.73	$245,854.77	$245,854.77	$452,998.13	$526,137.18	$534,786.05	$549,817.22	$756,969.78
Downtown TIF Phase-Out Costs	n/a	$21,878.38	$21,878.38	$43,756.76	$43,756.76	$65,635.14	$65,635.14	$87,513.52	$87,513.52	$109,391.90
	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Affordable Housing TIF Phase-Out Costs	$549,817.22	$549,817.22	$526,137.18	$526,137.18	$318,993.62	$245,854.77	$237,205.91	$222,174.73	$15,031.18	n/a
Downtown TIF Phase-Out Costs	$87,513.52	$87,513.52	$65,635.14	$65,635.14	$43,756.76	$43,756.76	$21,878.38	$21,878.38	n/a	n/a

Based on a tabulation of the costs from Table 4 and Table 5 provided above, the total cost for the City to provide the incentives in the Affordable Rental Housing CIP and Downtown Revitalization CIP is shown below.

Table 6: Summary of Total Incentive Program Costs

Year	Cost
Year 1	$1,341,303.11
Year 2	$281,968.11
Year 3	$750,705.42
Year 4	$307,831.54
Year 5	$1,383,656.85
Year 6	$1,154,235.07
Year 7	$780,800.07
Year 8	$934,960.74
Year 9	$1,731,376.06
Year 10	$1,174,708.86
Year 11	$637,330.74
Year 12	$637,330.74
Year 13	$591,772.32
Year 14	$591,772.32
Year 15	$362,750.38
Year 16	$289,611.54
Year 17	$259,084.29
Year 18	$244,053.11
Year 19	$15,031.18
TOTAL	**$13,470,282.46**

Conclusion

Based on the assumptions and the estimates discussed in this financial analysis, the following observations can be made:

- The Year 1 cost to the City would be **$1,341,303.11**;
- The peak cost to the City would be **$1,731,376.06** in Year 9;
- The average cost to the City over the 19-year period would be **$708,962.23**;
- The grand total cost to the City would be **$13,470,282.46**; and,
- The average cost per new housing unit (an assumed total of 544 new units) created is **$24,568.53** (excludes the costs associated with non-residential unit based incentives).

The figures above are inclusive of only the Affordable Rental Housing and Downtown CIP and do not factor in any incentives available as part of the Brownfield CIP. Additionally, the costs above do not account for any additional operational costs, such as program delivery, legal fees, advertising, or staff hours. Further, this financial analysis has not accounted for yearly increases in development charges, or application fees. As a result, the overall costs to the City are likely going to be higher than those quoted above. However, they serve as an important starting point to understand the implications these programs may have for the City.

It is important to remember that the total cost to the City stems from the assumptions around how many development projects are anticipated to occur each year that can take advantage of the programs on offer. If the total of 544 new units is considered to be too high, these can be reduced and as such, the costs will go down. Given that each unit is projected to cost the City approximately $24,568.53 in incentives, the overall anticipated yield of affordable rental housing (including new second units that are not affordable and new downtown residential units) may want to be reassessed.

Based on this, it will be important to set a yearly budget that the City is comfortable with for all three of the CIP programs. If a fixed budget is determined, Dillon can then reverse engineer the numbers to meet the budget and then determine how many units the City will be able to incentivize. If the number of units as a result of this is determined to be too low, then there will need to be a middle ground identified where the costs and the number of units created is considered to be acceptable.

Belleville Community Improvement Plan

Addendum to the April 2020 Financial Analysis Memo

March 25, 2021

1.0 Background

In April 2020, Dillon Consulting (Dillon) conducted a financial analysis of the proposed incentive programs for the Affordable Rental Housing and Downtown Revitalization components of the Community Improvement Plan (C.I.P.). The analysis was summarized in a Financial Analysis Memo to help the City understand the potential financial impact of each incentive. The analysis was originally prepared to scenario-test the financial implications of operationalizing the Affordable Rental Housing and Downtown components of the C.I.P., assuming that all programs would be immediately active.

The initial analysis was broken down by year to show the potential cost of the program for each year of a 10 year cycle. This included the phase-out costs associated with a Tax Increment Equivalent Rebate Financing[1] (T.I.E.R.) program, which was assumed to last 10 years from the date it commences. This means that if there were an application in year 10 of the C.I.P., the costs associated for the program would continue for an additional 10 years after that last intake on the T.I.E.R. program. Based on the assumptions and the estimates in the financial analysis, the following observations were made:

- The Year 1 cost to the City would be $1,341,303;
- The peak cost to the City would be $1,731,376 in Year 9;
- The average cost to the City over the 19-year period would be $708,962;
- The grand total cost to the City would be $13,470,282; and,
- The average cost per new housing unit created (an assumed total of 544 new units) would be $24,568.53 (excluding the costs associated with non-residential unit based incentives).

Essentially, the April 2020 financial analysis demonstrated that the full suite of C.I.P. programs offered the potential for a significant stimulus of affordable housing and downtown revitalization. It also suggested a potential burden of approximately $13 million over twenty years[2]. The April 2020 memo also assumed that all programs would be immediately available, which would have required significant financial input at the outset of programs.

[1] Referred to as the Tax Increment Financing (TIF) in the early stream analysis.

[2] Note, the April 2020 analysis did not include the C.I.P. programs associated with the brownfield programs.

2.0 Purpose of this Addendum

This Addendum serves a different purpose than the April 2020 analysis that identified the financial burden. This Addendum defines recommended budget inputs to the C.I.P. now that it is approved. A suggestive budget scenario is provided to explore and understand the financial position of the C.I.P. funding over a 10-year period using these specific parameters, based on discussion with/direction from City staff:

- An overall budget of approximately $13 million for the affordable rental housing and downtown C.I.P. programs[3], which is intended to provide funds to cover the extent of the programs over a duration of ten years[4];
- The budgetary input will begin with $850K in Year 1 and will increase annually;
- An existing annual program-specific budgeting of $85K is retained for the façade programs;
- An existing annual budget of $50K for the brownfields programs is retained, which is held in a separate account that does not draw from the $13 million budget;
- All programs except the building permit and development charge (D.C.) rebate programs (1, 2, and 7) will be initiated in Year 1; and,
- Unused funds in any given year will carry forward in reserve for use in future years.

It is important to note that some programs with complex year-over-year budget implications will depend on the specific attributes of the applications received (e.g. T.I.E.R.). The budget scenario focuses on the 'cash flow' of programs at a high-level. It is intended to help the City understand the availability of funding for the more complex programs to aid with decision-making on whether to offer them or not. The 'cash flow' analysis does not account for any additional operational costs, such as program delivery, legal fees, advertising, or staff hours.

[3] The brownfields programs were not included in the April 2020 memo.

[4] This means that the program will intake applications over a 10 year period; if, during this period, a T.I.ER. application is approved in year 10, then a reserve of funds would be used to pay out the T.I.E.R. through years 11 to 20. Large, complex projects may only begin receiving the financial incentives multiple years after approval, depending on the time elapsed between approval, project completion, and tax reassessment.

Table 1: Cash Flow Assumptions At-a-Glance

Program Number(s)	Program Name(s)	Maximum Payout per Successful Application	Budget
1	Affordable Rental Housing D.C. Rebate	Payout varies. Program to be activated at the City's discretion when sufficient reserve funds have been accumulated.	
2	Affordable Rental Housing Building Permit Fee Rebate	Payout varies. Program to be activated at the City's discretion when sufficient reserve funds have been accumulated.	
3	Affordable Rental Housing T.I.E.R.	Payout varies. Approved projects under this program have long-term budgetary impacts (10-years).	
4 & 5	Second Units in New Construction, Existing Housing	$2,500	$100K annually
6	Accessibility Top-up Rebate	$2,500	Varies
7	Residential Above Commercial Building Permit Rebate	Payout varies. Program to be activated at the City's discretion when sufficient reserve funds have been accumulated.	
8	Downtown Residential Above Commercial T.I.E.R.	Payout varies. Approved projects under this program have long-term budgetary impacts (10-years).	
9	Downtown Fire Retrofitting Rebate	$1,000	Varies
10, 11, 12	Façade Improvement: Design Rebate, Renovation Rebate, Rear Facade	$25,000 (total)	$85,000 annually
13, 14, 15, 16, 17	Brownfields: E.S.A., T.I.E.R., Building Permit Reduction, Development Charge Deferral, Tax Cancellation Assistance	Payout varies.	$50,000 annually

3.0 Budget Scenario Discussion

The scenario (see Table 2 on the next page) presented reflects the following:

- The Affordable Rental Housing D.C. Rebate and Building Permit Fee Rebate (**Programs 1 and 2**) may be activated when adequate reserves are accumulated[5]. In this scenario, the intake of applications to these programs is open in Year 4 and 5[6]. The program pays out in Years 6 and 7, reflecting the time required for approvals, construction, and the fulfillment of all program requirements before financial incentives are issued.
- The scenario assumes the intake for the Affordable Rental Housing T.I.E.R. Program (**Program 3**) will begin in Year 1 and run through Year 5. Due to the program requirements, the payouts are assumed to begin in Year 3 to account for the time needed for approvals, construction, and fulfillment of program requirements. The scenario assumes uptake will commence with a number of smaller projects in the first few years (e.g., low and mid-rise apartment buildings), with the potential for larger scale development projects as momentum builds (i.e., approval in Year 4, payout beginning in Year 6):
    - Year 1 Max. Approval (Paid out Year 3-12): $60K
    - Year 2 Max. Approval (Paid out Year 4-13): $80K
    - Year 3 Max. Approval (Paid out Year 5-14): $80K
    - Year 4 Max. Approval (Paid out Year 6-15): $400K
    - Year 5 Max. Approval (Paid out Year 7-16): $200K

  Under this scenario, should the maximum budget be reached for each intake year the total payout under this program will be $8.2 million ($4.32M in Years 1 through 10 and another $3.88M to conclude payouts after Year 10).
- The annual budget of $100K for the Second Unit Programs (**Programs 4 and 5**) would support the creation of 400 second units over ten years at a total municipal investment of $1M.
- The Accessibility Top-up Rebate (**Program 6**) is initiated with a $25K annual budget. The budget is increased to $40K in Year 6 to align with other programs, incentivising larger development projects and providing opportunities to bundle incentives. The budget subsequently decreases over gradually through to Year 10. The total value of the rebate is $255K, which would support the development of 90 accessible units over ten years.
- The Downtown Residential Above Commercial Building Permit Fee Rebate **(Program 7)** is activated in Years 2 through 4 in the scenario presented, with a total investment of $22.5K.
- The scenario assumes the intake for the Downtown Residential Above Commercial T.I.E.R. **(Program 8)** will begin in Year 1 and run through Year 4. Unlike Program 3, which assumes multiple years between application intake and payout, this program assumes the approval applicants will receive the incentive the following year. This is because the addition of a

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[5] The City may choose to open intake to the program(s) sooner, as long as the approvals under the program will not result in a negative balance in the cumulative reserved funds at any point.

[6] Based on example costs per project type from Table 2 of the April 2020 memo. Under the scenario presented in this addendum, the suggestive $300K D.C. rebate budget in Year 6 could provide sufficient funding to enable the rebate of D.C. charges for a mid-rise apartment which consists of 50% affordable units (estimated rebate of $100K) and a high-rise apartment with 30% affordable units (estimated rebate of $182K), as an example. The suggestive $170K building permit fee rebate budget could provide sufficient funding to enable the rebate of building permit charges a high-rise apartment consisting entirely of affordable units (estimated rebate of $170K), as an example.

residential unit above an existing commercial building is typically a shorter process than the development of a new building.

- Year 1 Max. Approval (Paid out Year 2-11): $50K
- Year 2 Max. Approval (Paid out Year 3-12): $50K
- Year 3 Max. Approval (Paid out Year 4-13): $50K
- Year 4 Max. Approval (Paid out Year 5-14): $75K

Under this scenario, should the maximum budget be reached for each intake year, the total payout under this program will be $2.25 million ($1.65M in Years 1 through 10 and another $600K to conclude payouts after Year 10).

- The Downtown Fire Retrofitting Rebate (**Program 9**) has an overall budget of $5K over the ten years, which is assumed to be accessed early in the life of the C.I.P. However, it is not expected to have significant uptake, and the impacts of the rebate are significantly lower than the other programs provided (maximum $1K per successful application). As such, the City may prefer to keep this program active as the year-over-year impacts of offering the program are relatively minor.
- The Façade Programs (**Programs 10 through 12**) are allotted an annual budget of $85K into a separate account, which means the unused funds from this program are not intended to be used for other programs (e.g. those under Accounts 1 or 3).
- Similarly to the Façade Programs, the Brownfields Programs (**Program 13 through 17**) have a separate account (Account 3) from which any remaining funds are not intended to be transferred for use in other programs.

While suggestive maximum budgets have been provided for each of the C.I.P. programs, uptake of any given program year by year is not predictable; as such, it is expected that:

- The actual value of funds provided through the programs will depend on the financial value and volume of successful applications received by the City;
- Funds allotted to programs may be revised at the City's discretion; and,
- Programs may be turned on/off at any given time based on funding availability and program interest or lack thereof. For example, if market capture is achieved related to second units (i.e. there are no more applications to the program), funds could be utilized to activate the development charge rebate program for a longer period of time.

Table 2: Budget Scenario

No.		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Years 11 +	Total**:
	Amount Budgeted	$850K	$950K	$1.05M	$1.15M	$1.25M	$1.35M	$1.45M	$1.55M	$1.65M	$ 1.75M		**$13M**
	Account 1* - Affordable Housing & Downtown Revitalization (except Façade Programs)												
1	Affordable Rental Housing Development Charge Rebate	$ -	$ -	$ -	$ -	$ -	$300K	$250K	$ -	$ -	$ -		**$550K**
2	Affordable Rental Housing Building Permit Fee Rebate	$ -	$ -	$ -	$ -	$ -	$170K	$145K	$ -	$ -	$ -		**$315K**
3	Affordable Rental Housing T.I.E.R.	$ -	$ -	$60K	$140K	$220K	$620K	$820K	$820K	$820K	$820K	$3.88M	**$8.2M**
4 & 5	Second Units in New Construction, Existing Housing	$100K	$100K	$100K	$100K	$100K	$100K	$100K	$100K	$100K	$100K		**$1M**
6	Accessibility Top-up Rebate	$25K	$25K	$25K	$25K	$25K	$40K	$25K	$15K	$10K	$10K		**$225K**
7	Residential Above Commercial Building Permit Rebate	$ -	$7.5K	$7.5K	$7.5K	$ -	$ -	$ -	$ -	$ -	$ -		**$22.5K**
8	Downtown Residential Above Commercial T.I.E.R.	$ -	$50K	$100K	$150K	$225K	$225K	$225K	$225K	$225K	$225K	$600K	**$2.25M**
9	Downtown Fire Retrofitting Rebate	$2K	$2K	$1K	$ -	$ -	$ -	$ -	$ -	$ -	$ -		**$5K**
	Funds Accessed - All Account 1 Programs	$127K	$184.5K	$293.5K	$422.5K	$570K	$1.455M	$ 1.565M	$ 1.160M	$ 1.155M	$ 1.155M	Total Acct 1:	$12.5675M
	Account 1 Reserved Funds - Annual	$723K	$765.5K	$756.5K	$727.5K	$680K	($105K)	($115K)	$390K	$495K	$595K		
	Account 1 Reserved Funds - Cumulative	**$723K**	**$1.4885M**	**$2.245M**	**$2.9725M**	**$3.6525M**	**$3.5475M**	**$3.4325M**	**$3.8225M**	**$4.3175M**	**$4.9125M**		

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10		Total**:
10 to 12	**Account 2 - Façade Programs** Façade Improvement: Design Rebate, Renovation Rebate, Rear Façade	$85K	$85K	$85K	$85K	$85K	$85K	$85K	$85K	$85K	$85K		$850K
												Total Accts 1 & 2	$13.417M
												Subtr Y10 Reserve	$432.5K
												Grand total Accts 1 & 2	**$12.985M**

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10		
13 to 17	**Account 3 - Brownfield Programs** Brownfield E.S.A., T.I.E.R., Building Permit Reduction, Development Charge Deferral, Tax Cancellation Assistance	$50K	$50K	$50K	$50K	$50K	$50K	$50K	$50K	$50K	$50K	**Total Acct 3**	**$500K**

* Funds may be redistributed within Account 1 at the discretion of the City.

** Accounts 1 and 2 pull from the same funding source, Account 3 is accommodated separately.

4.0 Conclusion

Based on the assumptions and the scenario discussed in this financial analysis, the following observations are made.

<u>The funding draw for T.I.E.R. projects is significant and long-lasting</u>

It is important to note that the cumulative impact of multiple approved T.I.E.R. projects would be a significant draw on the available funding; furthermore, it is important to reiterate that each approved impact T.I.E.R. project spans 10 years. It is important that the reserve funds are carefully monitored to ensure that funds disbursed in any given year do not inhibit the City's ability to provide incentives in the future that rely on a substantial pool of money.

That being said, ultimately, the City has absolute control over administering the C.I.P. funds to eligible projects. As such, in the administration of the C.I.P., the City may wish to consider:

- Developing and diligently maintaining a spreadsheet tracking the budget, disbursed funds, remaining available funds, and funds in reserve;
- Preparing an annual report for Council indicating the projects funded, the financial status of the reserve, and any relevant recommendations regarding program availability and changes to funding for the following year;
- In the review of applications, particularly those with large or long-term financial implications for the City, taking into considering whether the subject project has previously received financial or in-kind benefits from the municipality; and,
- If a project which is highly desirable to the City applies for T.I.E.R. funding, but there are insufficient funds to provide the rebate at the 100% level, the City should consider entering into an agreement with the proponent at a lesser level (e.g. 50% of the municipal tax is rebated) that is commensurate with available funds.

<u>Continue to use the cash flow analysis to guide the activation of the C.I.P.'s financial incentive programs</u>

Additionally, it is also important to remember that the cash flow analysis results in this Addendum arise from a scenario in which the maximum amount of funds allotted to each program are being accessed each year. Therefore, it is recommended that the City continually update this cash flow analysis based on program uptake so that it can readily gauge its ability to activate other C.I.P. programs (e.g., development charge/building permit rebates) at Year 5, Year 10, or some other opportune time during the life of the C.I.P.