RE: TAX INCREMENT FINANCING – BENEFITS AND OPPORTUNITIES

RECOMMENDATION:

That this report be received as information.

REASON:

At their informal meeting of July 26, 2006, the Winnipeg Housing Steering Committee requested that the administration provide information regarding Tax Increment Financing (TIF) and potential benefits and opportunities of using this strategy.

HISTORY:

Tax Increment Financing (TIF) can be defined as a financial tool that allocates future increases in property taxes from a designated area to pay for improvements only within that area." (City of Calgary. "The U.S. Experience with Tax Increment Financing." March 2005). This tool has been used successfully in several American cities, and is being considered for use in Calgary to fund revitalization of the Rivers District in Calgary's inner city.

According to the Calgary report, "The theory is that the property tax generated in a blighted area is flat or declining. If redevelopment can be stimulated, property values will rise and commercial activity will increase, creating an incremental increase in the tax revenues generated." This report also states that, "…the two determining qualifications for TIF are the presence of blight conditions and meeting the "but for" test that states redevelopment will not occur in a specified area without TIF."

TIF is allowed under provincial legislation governing the City of Winnipeg. Subsection 222(1) of the City of Winnipeg Charter states, "Council may by by-law establish tax increment financing programs in designated areas of the city for the purpose of encouraging investment or development in those areas."

Plan Winnipeg 2020 Vision identifies TIF as a strategy for neighbourhood revitalization. Paragraph 1C-01 (iii) states, "The City shall facilitate the provision of safe and affordable housing giving first priority to Major Improvement Neighbourhoods identified on Policy Plate D and second priority to Rehabilitation Neighbourhoods identified on Policy Plate D by proposing tax increment financing and tax credit programs to facilitate affordable infill development and improve housing stock in older neighbourhoods;"

DISCUSSION:

The City of Winnipeg's Neighbourhood Indicators Study has identified 14 of the city's 228 neighbourhoods as Major Improvement Areas, which are defined as, "older areas that have experienced significant decline to the point where housing and neighbourhood infrastructure require complete renewal." This category especially indicates the presence of blight. Five of these neighbourhoods have been further designated as Housing Improvement Zones, so that funding from the City's Housing Rehabilitation Investment Reserve (HRIR), administered through the Winnipeg Housing and Homelessness Initiative (WHHI) is targeted in these areas for housing and neighbourhood revitalization.

Funding through the WHHI is intended to address the market "gap" between cost of housing development and market value of completed housing units. Although TIF has not been used to generate funds for this gap funding, the use of funds is similar to the "but for" requirement identified in the Calgary report.

TIF has been used in Winnipeg through the Multi-Family Dwelling Grant, where the specific development is the TIF zone. TIF has not yet been applied to a larger area with multiple developments (such as a neighbourhood).

TIF was intended as a source of funds for the Housing Rehabilitation Investment Reserve. As stated in the adopted June 21, 2000 Council Regular Meeting Minutes (Report of the Executive Policy Committee dated June 7, 2000), "The Housing Rehabilitation Investment Reserve would fund City housing programs not provided for in operating budgets. It is intended that this Reserve act as a revolving fund so that incremental tax revenues resulting from housing programs in which the Fund has invested would be returned to the Reserve to finance future projects."

Designation of a TIF Zone suggests an intention to use incremental tax increases from property improvements throughout the entire zone. Because the City adjusts the Mill Rate annually to counter the impacts of inflation, these incremental tax increases will only occur in properties that have experienced significant renovation or new construction. Other properties in the neighbourhood may increase in value as a result of these improvements, but taxes will be affected minimally due to the Mill Rate adjustments. A review of properties that have been built or renovated with funding through the HRIR indicates that the total incremental municipal tax increase for all of the properties receiving funding in all five of the Housing Improvement Zones is less than $100,000 per year.

The municipal tax levy for 2006 is calculated using the formula:

$$\textit{Municipal Tax} = \textit{Assessed Value} \text{ X } \textit{45\%} \text{ X } \textit{0.025448}$$

According to this formula, each $10,000 increase in assessed value results in the collection of an additional $114.52. At this rate, a $10,000 grant that results in improvements that increase a property's assessed value by $50,000 will take approximately 17.5 years to recover (assuming 0% interest on investment of the original $10,000).

Of note, the City of Calgary successfully negotiated with the Alberta government a revision to the Municipal Government Act to establish a tool called a "community revitalization levy". This revision allows for the educational portion of the incremental property tax in a designated redevelopment district to be dedicated to redevelopment programs in the area. The City would be allowed to borrow funds to finance public improvements within a designated area, and repay those funds from incremental property taxes spurred by private investment. The City of Calgary also intends to charge development fees to recover a portion of infrastructure costs as development occurs.

Administration of the City of Winnipeg has discussed with the Province of Manitoba the potential use of incremental increases to the School Tax Levy that results from revitalization efforts. To date the Province has not indicated any interest in considering this approach.

Observation suggests that in the current environment, TIF from neighbourhoods with primarily low-density housing and limited commercial development would generate a small proportion of overall funding necessary for continued housing renewal. Establishment of TIF zones in low-density residential neighbourhoods (including Major Improvement Areas, Rehabilitation Areas, and Conservation Areas) would only provide limited benefits, which would not be sufficient to support ongoing rehabilitation in the Inner City.

A TIF Zone would be most effective in an area that experiences significant overall renewal that includes both residential and commercial development. The greatest opportunity for this type of growth would be the downtown, where new higher density housing and accompanying commercial development is being considered. In fact, Calgary administration referenced development of The Forks in Winnipeg as an example of successful redevelopment in comparison to proposed redevelopment of The Rivers District in Calgary.

Evaluation of potential resources generated through TIF would require a reasonable projection of housing and related commercial development likely to occur in the target area, and would require collaboration with both Corporate Finance and with Tax Assessment to estimate potential values of development that might occur.

THIS REPORT SUBMITTED BY:

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