TO: Secretary, Planning and Operations Committee
FROM: General Manager, Community Services Department
DATE: April 24, 2012
SUBJECT: 2011 Annual Report and Proposed Policy Changes – Vacant Lot and Adaptive Reuse Incentive Program
FILE NO: PL 4110-35-13

RECOMMENDATION: that a report be submitted to City Council recommending:

1) that the Vacant Lot and Adaptive Reuse Incentive Program annual report be received as information; and

2) that the Vacant Lot and Adaptive Reuse Incentive Program Policy No. C09-035 be amended as outlined in the report.

EXECUTIVE SUMMARY

The Vacant Lot and Adaptive Reuse (VLAR) Incentive Program has been operational for one year and has enjoyed considerable success. To date, 26 applications have been received under the program, 19 of which have been approved for incentives, with 3 currently in processing, and 4 denials. The approved and pending applications represent an investment in Saskatoon's established neighbourhoods of $38.2 million. The total value of incentives approved for projects to date is $851,181. For every dollar of incentive offered, $44 in new investment has been leveraged. Projects have been diverse, ranging from one- and two-unit dwellings to multiple-unit dwellings and Downtown commercial office buildings.

To ensure consistency with the intent of the program and its financial viability moving forward, your Administration is proposing three amendments to the VLAR Incentive Program Policy No. C09-035. Firstly, the vacancy criteria is proposed to be increased from 12 months to 48 months to discourage demolitions that occur in order to access incentives after one year. Secondly, maximum grants for each project type are proposed to ensure the reserve is sufficient to support future projects. Finally, it is proposed that the policy be amended to include a clause concerning Downtown housing projects to make it clear that all forms of housing Downtown are supported.

BACKGROUND

During its March 7, 2011 meeting, City Council resolved, in part:

> "that the new City Council Policy for the Vacant Lot and Adaptive Reuse Incentive Program be adopted as described in Attachment 1 of the report of the General Manager, Community Services Department dated February 3, 2011."

REPORT

The VLAR Incentive Program was established to encourage infill development on chronically vacant sites and adaptive reuse of vacant buildings within Saskatoon's established neighbourhoods. The program is designed to support policy directions in Official Community Plan Bylaw No. 8769 and the Downtown plan. The program aligns with the Strategic Plan's priority to create incentives to promote density, and the Integrated Growth Plan's focus on infill development. This report contains an update on the program since it has been operational for one year, as well as proposed policy changes to ensure consistency with the intent of the program and its financial viability moving forward.

Program Overview

The program gives applicants the choice of a grant or a five-year tax abatement for eligible infill and adaptive reuse projects. The tax increment that a property incurs due to new construction is used as the basis for calculating both incentives. Applications are scored against an evaluation system where points are awarded for features included in a project that meet certain policy objectives, such as mixed use and transit oriented development. The score out of 100, which a project earns, determines what proportion of the maximum incentive amount it receives.

Grants are paid from the VLAR Reserve. The program is designed to be self-financing as the tax increment collected, once a project is complete, is redirected into the reserve until the grant for that project is repaid. However, in rare cases, we may provide a one-time grant to those developments that use vacant space within a building, but do not create any incremental taxes. In these cases, we will use the VLAR Reserve to fund the grant. During its August 18, 2010 meeting, City Council authorized $1 million for the base financing for this reserve. All tax abatements are approved by City Council.

Program Performance

The VLAR Incentive Program has enjoyed considerable uptake since its inception. A total of 26 applications have been received to date, 19 of which have been approved for incentives, with 3 currently in processing, and 4 denials. Telephone and email inquiries have demonstrated an interest in and support for the program from residents, business owners, and developers alike.

Of the 22 approved or pending applications, 4 have chosen the five-year tax abatement with the others opting for the grant. This demonstrates the popularity of the grant to assist with the up-front capital costs of construction. It also underlines the importance of maintaining a healthy reserve sufficiency to ensure funds are available to support these grants now and in the future.

The approved and pending applications represent an investment in Saskatoon's established neighbourhoods of $38.2 million. To date, the value of incentives for approved projects totals $851,181. For every dollar of incentive offered, $44 in new investment has been leveraged.

Projects have been well distributed throughout the program area indicating there is new investment occurring across Saskatoon's established neighbourhoods. See Attachment 1 to review the geographic distribution of applications.

One- and Two-Unit Dwellings

Applications for one and two-unit dwellings are the most common to be received under the program, totalling 15 approved or pending applications to date. The average incentive for one- and two-unit dwellings is $5,378. The largest incentive approved is a tax abatement estimated at $12,000, while the smallest incentive is a grant of $2,772.

All four applications requesting tax abatements have been for one- and two-unit dwellings. Tax abatements can be an attractive incentive for new owner-occupied housing. However, the grant has been considerably more popular as many one- and two-unit infill projects are constructed, and subsequently sold by a developer, who prefers the grant to assist with capital costs. There are instances where a developer has chosen the tax abatement to use as a purchase incentive for buyers.

These 15 one- and two-unit dwellings represent a total investment of $4.7 million. The total value of the incentives approved for these projects is $64,535. See Attachment 2 for a full breakdown of the incentives provided to all approved projects.

Multiple-Unit Dwellings

Three applications for multiple-unit dwellings, representing an $11.3 million investment, have been received to date. They consist of apartment-style and townhouse condominiums, and a co-housing development. A breakdown of these projects is as follows:

Address	Project Description	Grant Amount
530 Avenue J South	21 Unit Co-housing Project	$90,000.00
313/321 Avenue D South	12 Condominium Townhouses	$51,993.75
926 9th Street East	6 Unit Condominium	$49,450.00
	Total Value of Incentives	**$191,443.75**

Commercial Projects

The four commercial applications approved consist of the adaptive reuse of a vacant office building, two new office buildings on surface parking lots in the Warehouse District, and a restaurant in a chronically vacant rental space. The office buildings contain a combined total of 93,000 square feet of leasable office space, and represent a total investment of $22.2 million. Because the tax increment for commercial projects of this size is significantly higher than for small residential projects, the final grants have been the largest awarded under the program. Details regarding these projects are as follows:

Address	Project Description	Grant Amount
15 23rd Street East	Four Storey Office	$333,077.50
220 Wall Street	Three Storey Office	$199,115.00
320 22nd Street East	Renovation of Vacant Two Storey Office	$ 59,953.95
336 Avenue C South	Restaurant in Vacant Space	$ 3,056.00
	Total Value of Incentives	**$595,202.45**

The two new office buildings under construction in the Warehouse District are exemplary projects supported by the VLAR Incentive Program, because they reduce the number of downtown surface parking lots and aid in the revitalization of the area. The large grants are reflective of their significant tax increments that will benefit the City of Saskatoon (City) in the long term. While these grants will eventually be repaid to the VLAR Reserve through the redirection of the collected increments to the fund, they are large enough that future grants of a similar size could affect the reserve's sufficiency and cash flow. This could limit the reserve's ability to support other projects while these large grants are repaid to the reserve. This has prompted your Administration to consider maximum caps for the grant, which is discussed below.

Proposed Policy Changes

The operation of the VLAR Incentive Program over the past year has allowed your Administration to monitor its performance and assess how it can be improved. While the program's first year has undoubtedly been a success, your Administration is proposing three policy changes to ensure consistency with the intent of the program and its financial viability moving forward.

Policy Change No. 1: Increase Vacancy Criteria from 12 Months to 48 Months

The main objective of the VLAR Incentive Program is to encourage infill development on chronically vacant sites. It is not the intent of the program to create vacant sites for the purposes of redevelopment. There are recent cases where an existing building was demolished and the concern is that these sites would become eligible for incentives. This does not meet the program objective of encouraging development on chronically vacant sites. The spirit of the program is missed as vacant sites are being created for the purpose of redevelopment, rather than new development being directed to existing chronically vacant sites. The program should not encourage applicants to demolish an existing building and leave the site vacant for one year simply to access incentives.

It is recommended that VLAR Incentive Program Policy No. C09-035 be amended to require site vacancy for a period of at least 48 months instead of 12 months. If approved, all future applications must demonstrate that a property has been vacant for 48 consecutive months in order to be eligible.

Exceptions to this rule would be made for the demolition of a derelict vacant building, where a property maintenance order, fire order, public health or safety hazard, or history of land use complaints clearly demonstrates that a building is uninhabitable or structurally unsound. Exceptions would also be made for the adaptive reuse of an existing vacant building. In both of these cases, vacancy must be demonstrated for a period of at least 12 months.

Application Type	**Vacancy Requirement (months)**
All New Applications	48
Demolition of a Derelict Building	12
Adaptive Reuse of a Vacant Building	12

Policy Change No. 2: Maximum Grants for Each Project Type

In its first year, the two largest grants approved under the VLAR Incentive Program were approximately $200,000 and $330,000. These two grants account for more than half of the initial allocation to the VLAR Reserve. Once these large grant amounts are paid out, along with a number of small- and medium-sized grants, the balance in the reserve could become depleted enough to threaten the program's ability to support other projects. While all grants are eventually repaid to the reserve through the redirection of the tax increment collected, this takes several years from the time that a grant is paid. The time lag for repayment is such that the cash flow of the reserve must be carefully managed to ensure its sufficiency to support future projects. The establishment of maximum grants would limit the amount that any one project could deplete the reserve.

It is recommended that VLAR Incentive Program Policy No. C09-035 be amended to include caps on the maximum grants as follows:

a) commercial, industrial, and mixed-use projects: $200,000 maximum;
b) multiple-unit dwellings: $75,000 maximum; and
c) one- and two-unit dwellings: $15,000 maximum.

No cap is proposed to the potential value of a tax abatement.

Based on the program performance during the first year, the grant limits are large enough to attract development and ensure that no single development will deplete the available funding.

Policy Change No. 3: Clarify the Downtown Housing Incentive

During the development of VLAR Incentive Program Policy No. C09-035, it was the intention to keep all of the existing Downtown Housing Incentives intact. Furthermore, it was also intended to exclude River Landing from vacant lot incentives, but continue to provide a tax abatement for any housing developments in River Landing. Upon further review of this policy, it is not clear that the policy achieves both objectives. Therefore, it is recommended that VLAR Incentive Program Policy No. C09-035 be amended to include a clause that offers a tax abatement for new housing construction on any sites within the Downtown that do not otherwise meet the criteria of the VLAR Incentive Program, including sites in River Landing.

Please refer to Attachment 3 for a detailed description of each proposed policy change.

Montgomery Place

During the first year of the program, the Planning and Operations Committee raised the question of how this program fits within the context of Montgomery Place. Your Administration has reviewed this matter and deems that a chronically vacant site within any established neighbourhood is not consistent with the City's goal to promote the use of all existing vacant sites. It should be noted that this incentive program is not intended to support the creation of vacant sites for the purpose of redevelopment, but rather to encourage development on existing vacant sites. Therefore, development on any existing vacant site is a positive occurrence in an established neighbourhood.

Effective Date

The proposed policy changes will take effect once approved by City Council. All applications received following City Council's approval date will be subject to the changes. All applications that have been received and are being processed prior to this date will not be subject to the changes.

OPTIONS

The other option is to not amend VLAR Incentive Program Policy No. C09-035 as proposed; this option will leave the program at risk of failing to fully meet its objectives.

POLICY IMPLICATIONS

If approved, amendments to VLAR Incentive Program Policy No. C09-035 would be required.

FINANCIAL IMPLICATIONS

Adopting this report will help to ensure that the reserve is sufficient to support future projects. The current reserve balance, after taking into account all committed grants, is $238,772. The estimated balance as of December 31, 2013, will be $356,109, assuming the first year of the five-year incremental property tax begins flowing into the reserve one year after the grant has been paid.

PUBLIC COMMUNICATION PLAN

If the proposed policy changes are approved, your Administration will update the program's webpage, marketing materials, and will send notices to the Business Improvement Districts and the Saskatoon Regional Economic Development Authority advising of the changes.

ENVIRONMENTAL IMPLICATIONS

There are no environmental and/or greenhouse gas implications.

PUBLIC NOTICE

Public Notice, pursuant to Section 3 of Public Notice Policy No. C01-021, is not required.

ATTACHMENTS

1. Geographic Distribution of Applications Within Program Boundary
2. Approved Grants and Tax Abatements To Date
3. Proposed Changes to VLAR Incentive Program Policy No. C09-035

Written by: Brent McAdam, Planner

Reviewed by: "Alan Wallace"
Alan Wallace, Manager
Planning and Development Branch

Approved by: "Lynne Lacroix" for
Randy Grauer, General Manager
Community Services Department
Dated: "April 25, 2012"

Approved by: "Murray Totland"
Murray Totland, City Manager
Dated: "April 30, 2012"

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ATTACHMENT 3

Proposed Changes to VLAR Incentive Program Policy No. C09-035

Policy Change No. 1 – Increase Vacancy Criteria from 12 Months to 48 Months

3.11 (existing) Vacant Site/Building – existing sites, formerly used for an urban use on which there exists no building, or where a building contains mainly vacant space for a period of at least one (1) year.

3.11 (**proposed**) Vacant Site/Building – existing sites, formerly used for an urban use on which there exists no building, or where a building contains mainly vacant space for a period of at least 48 consecutive months.

Policy Change No. 2 – Maximum Grants for Each Project Type

3.15 (existing) Maximum Incentive Amount (MIA) – the increment between the existing property taxes (City portion) and the taxes upon completion, multiplied by five (5) years.

3.15 (**proposed**) Maximum Incentive Amount (MIA) – the increment between the existing property taxes (City portion) and the taxes upon completion, multiplied by five (5) years. The maximum cash grant available is:

a) Commercial, Industrial, and Mixed Use: $200,000;
b) Multiple-Unit Dwellings: $75,000; and
c) One- and Two-Unit Dwellings: $15,000.

Policy Change No. 3 – Clarify the Downtown Housing Incentive

4.1 d) (Existing) Any housing developments located at River Landing are eligible for a five-year tax abatement only.

4.1 d) (**proposed**) River Landing is excluded from the vacant lot incentive program. However, any housing development within River Landing is eligible for a five year tax abatement.

4.1 j) (**new clause**) Any housing project located Downtown, which does not otherwise meet the criteria of this policy, is eligible for a five year tax abatement.