Exploring Development Incentives

Report to County of Vermilion River Council

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COMPANY NAME
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Exploring Development Incentives

What are Development Incentives?

Development incentives is a broadly used term to define cash or near-cash assistance in different forms with the purpose of creating or encouraging a specific type of business activity, business longevity, and/or job retention and creation.

Incentives can be a beneficial economic development tool commonly used to achieve goals beyond economic growth or job creation. Development incentives can provide a helping hand to new developments and a boost to struggling ones. The additional development helps increase a region’s tax base. As the result of a new business coming to a municipality, local employment and economic base can be diversified. Businesses and employees will have greater reasons to shop and buy locally further stimulating growth, while generating revenue and taxes.

This report will examine development incentives in various jurisdictions to assist the Council of the County of Vermilion River (CVR) on the types of incentives are being used in other areas, how incentives are implemented, and why incentives can be beneficial to the economy. Case studies from international locations, three provinces, and municipalities within Alberta will be examined to understand what incentives in comparable areas have been implemented and how CVR can use this information in its learning and decision-making process on exploring development incentives.

The report illustrates that CVR is not comparable to municipalities with development incentives implemented, because other areas are much larger in comparison and have distinct challenges to their mandates. Although CVR is not comparable to many municipalities who have their own development incentives, this investigation will show that benefits such as economic growth and civil trust may be achieved through implementation of incentives by the County.

“Incentives can help achieve development goals beyond economic growth or job creation.”
Types of Development Incentives

There are many types of development incentives, also called subsidies, and they can help reduce development costs in a variety of ways. Some of them reduce taxes; others are given as cash; still others save companies money by reducing the cost of construction or of borrowing capital. Common subsidies include:

- **Tax abatements** reduce or eliminate the taxes a company pays to state and/or local governments. Commonly used abatements include property tax abatements, sales tax exemptions, and inventory tax abatements.

- **Tax credits** reduce or eliminate state corporate income taxes by allowing a company to deduct a certain percentage of a specific kind of expense dollar for dollar from what it would normally owe. Examples include credits for research and development, spending on new equipment, and employing hard-to-hire workers.

- **Industrial Revenue Bonds (IRBs)** reduce the cost of borrowing money. When local governments issue bonds, the interest on the bonds is tax-free. Companies get what amounts to a low-interest loan.

- **Infrastructure assistance** lessens the price of construction by shifting the cost of improvements or expansion of roads, sewers, water lines, and other utilities to local governments. Improvements may be made on the project site (i.e. bulldozing existing structures or preparing land) or off-site (i.e. adding a stoplight to reroute traffic or rebuilding a bridge to accommodate heavy trucks).

- **Grants** are subsidies given as cash to companies. Usually grants must be used for a specific purpose, such as worker training. Some states and cities award grants for general use.

- **Land-price write-downs** reduce the cost of purchasing land. A development authority (the quasi-governmental arm of state or local development departments) typically buys the land and then transfers it to a private developer for a price below the authority’s acquisition cost. The local government may also pick up the tab for the exercise of eminent domain, demolition and clearance, and/or environmental cleanup.
**Tax-increment financing (TIF)** uses the property tax collected on the increased property value of a new development (and in some places the newly-generated sales tax) to pay for infrastructure, land acquisition, or other costs of the development.

**Enterprise Zones** (a.k.a. Empowerment Zones, and by state-specific names such as Michigan’s Renaissance Zones or New York's Empire Zones) are geographically designated, economically-depressed areas in which companies can get multiple subsidies (usually property tax abatements, inventory tax exemptions, and various corporate income tax breaks, including employment tax credits).

Many of these programs are paid for through *tax expenditures*, tax revenue that the state (or city or county) does not collect as a result of the subsidy. Others are *direct expenditures*, money that the government allocates in its budget, for anything from printing stamps to buying land to enable a hospital to expand. Tax expenditures far exceed direct expenditures for economic development, and are rarely tracked. Direct expenditures are part of the budget and must be approved by the city council or state legislature every one or two years.

Subsidy programs also fall into one of two categories depending on how companies qualify for them. *Entitlement subsidies* are automatically available to any company that meets a certain set of criteria. For example, if a job training tax credit specifies that a manufacturing company qualifies for a $2,000 tax credit for each new employee it trains, then any manufacturer that meets that requirement is entitled to claim that subsidy when it files its income tax return.

*Discretionary subsidies* are awarded on a case-by-case basis through individually negotiated deals between governments and companies. There may be no specific criteria that a company must meet, or very broad, loose criteria that give officials a lot of discretion in determining whether a company gets a subsidy, or how large a subsidy. Examples include property tax abatements, tax-increment financing, and land-price write-downs.
Economic development literature identifies five categories of incentives:  

1) one-time deals negotiated with individual firms;  
2) grants and loans provided under programs that receive annual state/provincial appropriations;  
3) programs establishing parameters and limits, but allowing some degree of local government discretion;  
4) incentives that function as entitlements, whereby a firm receives the benefit automatically provided its investment is in an eligible sector and the size of the investment or number of new jobs created exceeds some threshold; and  
5) code features that apply to all firms, but benefit some more than others and are often advertised by economic development agencies as reasons to locate in a state/jurisdiction.

**Municipal Government Act Provisions**

In Alberta, the Alberta Government has passed legislation that allows municipalities to develop some incentive programs. The following is a summary of relevant sections from the Municipal Government Act (MGA). For complete details please refer to the MGA.

**NEW 364 Exemptions granted by bylaw (Machinery and Equipment Tax Incentives)**

Allows municipalities to pass a bylaw permitting them to reduce or eliminate property taxes for up to 15 years on machinery and equipment.

**364.1 Brownfield tax incentives**

A council may by bylaw, for the purpose of encouraging development or redevelopment for the general benefit of the municipality, provide for full or partial tax exemptions or deferrals of the collection of tax.

**NEW 364.2 Tax Incentives for Non-Residential Property – Bill 7**

Allows municipalities to pass a bylaw for the purpose of encouraging the

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development or revitalization of properties, to establish an eligibility criteria and to offer incentives - full or partial exemptions from taxation or deferrals on the collection of tax for up to 15 consecutive years, barring renewal.

**382(1) (h) Special Tax Bylaw - Location Incentives**

A tax to enable the municipality to provide incentives to health professionals to reside and practice their professions in the municipality.

**Local Government Incentive Tools**

In addition, the MGA grants sufficient autonomy to municipalities to make use of a variety of development-directed tools to help them implement development incentives to different degrees. The best tool for a municipality is that tool which would help it best attract the desired type of development it is targeting and ensure fiscal viability in the long term. These tools can be put together in many combinations to fulfill this objective.

- **Clawbacks**: penalty provisions in incentive contracts that require companies to pay back some or all of the incentive monies they received if they fail to meet performance expectations (employment, capital investment) within a certain period. Clawbacks are a recommended best practice to ensure compliance.

- **Infrastructure assistance**: help in providing, paying for, or offsetting the costs of improvements to utilities such as water and sewer systems, roads, power lines, and telecommunications on behalf of a company.

- **Cash-grant incentives**: grant monies to qualified businesses in order to defray costs incurred as a result of relocation or expansion a business facility in the municipality.

- **One-stop permitting**: co-locating, streamlining, and fast-tracking of government inspection, licensing, and permitting services to make it easier for businesses to apply for and obtain various permits.

- **Site preparation**: provision of funds to cover the costs of specialized infrastructure, engineering or survey work, clearing, grading, demolition, paving, environmental assessments, and so forth, for a company to locate at a particular site.
Relocation assistance: provision of help to new or expanding companies in relocating executives by paying relocation costs, assisting with spousal employment, aiding in sociocultural acclimation, providing housing and child care referrals, and the like.

Employee screening: assistance to new or expanding companies in hiring workers through pre-employment services, job fairs, connections to employment agencies, and the like.

Regulatory flexibility: taking of steps to clarify and streamline rules, and otherwise ease the burden of government regulations on businesses.

Table 4. The Most Important Site-Selection Factors for Large Manufacturing Firms

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Factor</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Highway accessibility</td>
<td>96.9</td>
</tr>
<tr>
<td>2</td>
<td>Labor costs</td>
<td>92.3</td>
</tr>
<tr>
<td>3</td>
<td>Energy availability and costs</td>
<td>89.0</td>
</tr>
<tr>
<td>4</td>
<td>Availability of skilled labor</td>
<td>88.7</td>
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<tr>
<td>5</td>
<td>Occupancy or construction costs</td>
<td>88.2</td>
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<tr>
<td>6</td>
<td>Available land</td>
<td>85.4</td>
</tr>
<tr>
<td>7</td>
<td>Corporate tax rate</td>
<td>83.8</td>
</tr>
<tr>
<td>8</td>
<td>State and local incentives</td>
<td>83.4</td>
</tr>
<tr>
<td>9</td>
<td>Environmental regulations</td>
<td>83.2</td>
</tr>
<tr>
<td>10</td>
<td>Tax exemptions</td>
<td>82.8</td>
</tr>
<tr>
<td>10 (tie)</td>
<td>Proximity to major markets</td>
<td>82.8</td>
</tr>
<tr>
<td>11</td>
<td>Advanced ICT [information/communication technology] services</td>
<td>82.2</td>
</tr>
<tr>
<td>12</td>
<td>Low union profile</td>
<td>80.6</td>
</tr>
<tr>
<td>13</td>
<td>Availability of buildings</td>
<td>79.3</td>
</tr>
</tbody>
</table>

Tax Increment Financing

Purpose

Tax Increment Financing (TIF) is a funding initiative that allows a municipality to redirect a portion of provincial tax revenues from a designated revitalization area and direct the revenues towards approved municipal expenditures in the specified area. The revenue that is redirected is a portion of the provincial (education) share of the property tax revenue. The approved expenditures must have a direct role in fostering redevelopment of the area and tend to be capital improvements and one-time investments. These municipal improvements encourage property owners to invest in their properties resulting in a renewal and revitalization of an existing area.

Municipalities can make loans or grants within revitalization project areas to help pay for certain costs, and can also establish Tax Increment Equivalent Financing (TIEF) programs.

Elements

Before a municipality can create a community revitalization levy there is considerable amount of planning and preparatory work that must be completed. Plans and initiatives underway in an area along with public input serve to define the priorities and support the establishment of a TIF district.

Funding

Incremental tax financing refers to a process that sets a benchmark assessment/taxation level and every tax dollar collected above the benchmark is redirected to fund targeted investments. In the case of CRL it takes any increase in the provincial school property tax revenue over the benchmark year and provides these funds to the municipality for a 20 year period. For example, if provincial school tax revenue for a property was $50 in the benchmark year and re-investment in the property occurs in a future year that increases the revenue to $75, then the added $25 would be available to the municipality.

The TIF system does not increase municipal taxes for the ratepayer. What changes is the jurisdiction that gets to use the funds. It is not a new tax and operates as a self-funding mechanism for revitalization efforts.
Implementation

The TIF mechanism provides the local government with the legal means and security to borrow against the future property tax revenues for current spending. The local government floats bonds for the public portion of the development costs, dedicating the expected tax increments to pay the debt service. In other cases, the developer pays for the costs of the project and is reimbursed by the local government as the incremental property taxes are generated.

The potential for redistribution exists because taxes on any increase in the assessed property values within the TIF district go to a separate fund to pay for TIF activities while taxes on the base value of the properties remain the same for the designated lifespan of the TIF.

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2 Tax Increment Financing equals a Community Revitalization Levy (CRL) in the Alberta, Canada context. Establishing a CRL requires passing of a bylaw by Council and approval from Lieutenant Governor in Council, whom can make amendments or impose conditions to the levy. See Municipal Government Act, Section 381.2.
Calculating Tax Increment

The general formula used to calculate increment revenues is:

\[ I = r (n - i) \]

Where:
- \( I \) = the increment revenues
- \( r \) = the tax rate in the current year
- \( n \) = the assessed valuation in the current year
- \( i \) = the assessed valuation in the base year

For example, if the assessed value in the base year was $25 million, and rose to $45 million in year 4 of the TIF district designation, and the tax rate in year 4 is 9 mils, then:

\[
\begin{align*}
I &= .009 \times (45,000,000 - 25,000,000) \\
   &= .009 \times 20,000,000 \\
   &= 180,000
\end{align*}
\]

That is, in year 4, $180,000 will be available for the local government or redevelopment agency to make bond payments or fund improvements in the TIF district. If the local government or redevelopment agency wants to use the future increment in the present, this amount needs to be discounted by an appropriate discount rate to determine the present value.

*Source: Casella 1984.*
This graph shows the effect of TIF designation on tax revenue allocation over time. Prior to TIF designation, taxes on the base assessed value of all property are allocated among taxing districts. After designation, the added increment of assessed value is taxed, and the revenues pay off bonds or fund other expenses specifically for the TIF district. Base assessed value is unaffected. When the designation expires, the increment of assessed value is added to the base assessed value. This combination is taxed, and revenues are allocated among taxing bodies.

**ALLOCATION OF ASSESSED VALUE WITHIN TIF DISTRICT**

Source: Rachel Weber.
Local Government Programs

Not all development incentives are directed at developers. There are many programs municipalities can implement internally that not only will enhance their fiscal efficiency and effectiveness in providing services essential to developments but also provide stability to the municipality, which would make it more attractive to development in the long term.

Capital Improvements Program (CIP)

Purpose

Help coordinate activities and contributions towards the purchase or construction or major repair, reconstruction, or replacement of capital items within a 5-6 year schedule to direct the pace and influence the quality of development within the community.

A CIP allows private investors to understand a community’s tax burden and services costs, and reflects the fact that the community has done some advance planning to minimize the costs of capital projects.

Elements

A CIP can include: capital projects and capital improvements. The former is the first year of the CIP is the capital budget, which the municipality adopts and implements along with the operational budget. The later are projects that require a major, non-recurring expenditure beyond a stated dollar amount (exceeding cap is the trigger for inclusion in a CIP). These capital expenditures can further be distinguished as capital outlay or capital project.

Funding

The program can be funded directly from taxes, impact fees, provincial and federal grant and loans programs, or a combination of these to maintain a stable financial program.

Implementation

Major steps in developing a CIP:
1) Identify the needs for facilities and the timing, costs, and means of financing for each project.

2) Establish the relationship of the CIP to the MDP.

3) Prepare a financial analysis of the municipality’s capacity to pay for new facilities (including infrastructure).

4) Establish priorities among proposals (see #1).

5) Receive public input on recommended projects and priorities.

6) Prepare a final capital improvement program showing: projects, priorities, schedule of completion, and methods of funding each project.

7) Adopting of the CIP by Council and adopting first-year projects as a capital budget as part of the annual budget.

8) Review the CIP annually.
## Checklist of Capital Improvement Program Procedures

- [ ] Appoint a Coordinator and Other Participants, and Define Responsibilities
- [ ] Inform Citizens
- [ ] Set Rules/Policies
  - Define Capital Improvement
  - Determine Length of Plan
- [ ] Develop a Priority System
- [ ] Prepare Inventory List
  - Include Age, Condition, Replacement Dates
  - Include Improvements Underway and Current Status
- [ ] Prepare a Project Request List in Priority Order
  - Include In-Depth Information on Each (Justification, Future Operation and Maintenance Costs, Relationship to Other Projects)
- [ ] Review Projects and Develop Project Summary Lists
- [ ] The Financial Picture
  - Revenue Trends/Projections
  - Expenditure Trends/Projections
- [ ] Alternative Financing Mechanisms
- [ ] Final Report, Adoption, and Implementation

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**CHECKLIST OF CAPITAL IMPROVEMENT PROGRAM PROCEDURES**

*Source: American Planning Association.*
Empowerment Zones (EZ) and Enterprise Communities (EC) Program

Purpose

The purpose of the EZ/EC program is to target revitalization efforts in specially designated economically distressed urban and rural areas. The program will garner provincial and federal grant-making investment to spur development balanced by tax reduction and regulation flexibility to lower the effective costs of doing business in distressed areas.

Local stakeholders prepare a strategic plan to address the needs of the community that will guide implementation. A community and their strategic plan will need to meet a number of eligibility criteria to be considered for awarding of funds under the program.

The EZ/EC initiative provides tax incentives and performance grants to create jobs and expand business opportunities. It also focuses on activities to support people looking for work, such as job training, childcare, and transportation.

What sets this initiative apart from other community revitalization efforts is that the community drives the decision-making. Residents decide what happened in their neighborhoods, rather than governmental agencies or officials. Each EZ/EC community establishes quantifiable goals that determine how the money would be spent and what are the expected the results of the activity.

Elements

The program is guided by four principles:

1) *Economic Opportunity*. Creating jobs, expanding access of area residents to jobs outside the designated area, attracting private investment, and promoting self-sufficiency of area residents.

2) *Sustainable Community Development*. Balancing economic revitalization with environmental protection, as well as making neighbourhoods safer and more livable through sound urban design.
3) **Community-based Partnerships.** Encourage area residents’ involvement, intergovernmental cooperation, and building relationships with the private sector.

4) **Strategic Vision for Change.** Community vision is a part of plans and strategies, include how existing assets will be incorporated into the plan, describe the range of necessary financial and programmatic responses that will be put in place to address the needs of the community.

**Funding**

The EZ/EC program basis is a federal-provincial-municipal partnership for stimulating comprehensive community development and economic growth in economically distressed areas. Federal and provincial governments provide resources in the form of grants and tax relief; municipalities are responsible for agenda setting and implementing community-based strategies.

It will require identifying federal and provincial discretionary spending streams and / or entitled programs that can be tapped into to provide funding for projects presented by communities and provide or balance out municipal tax relief measures.

**Implementation**

An EZ/EC program requires:

1) Identify EZ/EC areas.

2) Establish eligibility criteria (community & strategic plans).

3) Identify funding availability and structure.

4) Establish fund and award schedule.

5) Receive public input on draft program.

6) Prepare a final program showing: EZ/EC areas, eligibility criteria, application process, awarding schedule, funding methods, review/update schedule.

7) Adopting of the EZ/EC program by Council.
Planned Industrial Districts³

Purpose
Expansion and growth in peri-urban areas and the associated pressures generated by incompatible land uses elevate the costs of doing business in these locations. PIDs are an added layer of zoning that is applied to areas already designated for industrial development. The PID takes precedence over all existing zoning regulations and serves to unify a fairly large area into a single zoning designation and establishes the extension of the area and the allowed activities within it, thus protecting industrial areas and corridors from residential and commercial encroachment and conversion.

Elements
The PID designation derives its strength from disallowing piecemeal zoning (spot zoning), which could yield the conversion of industrial zoned sites into residential and commercial uses. The cumulative effects of such conversion could result in significant conflicts between industrial and adjacent land uses, especially when considering extending the urban fabric to these areas.

Funding
PIDs, implemented as part of a larger strategy, can play a crucial role in attracting and retaining industrial activity. PIDs are a planning tool that can support plans and implementation of financing instruments such as loan programs, a special tax, a local improvement tax, and / or a brownfield tax incentive by giving land-use protection to retain and attract industrial developments. PIDs demonstrate a commitment to maintaining a favorable business climate by ensuring adequate space available for development and expansion of industrial activities, reasonable costs, and a predictable real estate market for industrial development that encourages companies to make long-term investments in their current sites rather than considering relocation to other jurisdictions. “A stable industrial environment is a requirement for capital investments to take place”⁴.

Implementation
In addition to specific requirements under each financing instrument, PIDs require:
1) Define focus of the strategic plan: industrial retention/expansion, local hiring, industries/uses.

2) Identify PID area(s).

3) Identify funding structure.

4) Establish fund and implementation timeline.

5) Receive public input on draft program.

6) Prepare a final strategic plan showing: PID areas, regulations, projects, timeline, funding methods, review/update schedule.

7) Adopting of the PID by Council.

Business Improvement Districts (BID)\(^5\)

**Purpose**

BIDs are sometimes referred to as business improvement zones, as well as special improvement, special assessment, special services, and/or business assistance districts — can range in size and scope. Some are independent of local government, having almost complete autonomy to finance, construct, and manage specific projects, while others are dependent on local government, created only to raise revenue for specific projects.

**Elements**

BIDs consist of a defined area within which participating businesses will benefit from the services and/or projects designated for the area. The benefits of belonging to a

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\(^3\) An adaptation of the Planned Manufacturing Districts implementation technique.

\(^4\) Ducharme, Donna. *Planned Manufacturing Districts: How a Community Initiative Became City Policy*. New Brunswick: Rutgers University Press, 1991), pp. 221-237. Donna Ducharme was the founder and executive director of the Local Economic and Employment Development Council of Chicago's New City YMCA at the time of writing. She later became the Deputy Commissioner of Planning for Industrial Development (1993-96), and then CEO of the Delta Institute providing environmental planning services to local manufacturers and others.

\(^5\) Business Improvement Districts (BIDs) are known in the Alberta, Canada context as Business Improvement Areas (BIAs) to differentiate them from Municipal Improvement Districts; “the municipal authorities originally formed by the Government of Alberta in sparsely populated areas where there was neither the population nor the tax base to support and finance a viable local government”. [http://www.municipalaffairs.alberta.ca/improvement-district](http://www.municipalaffairs.alberta.ca/improvement-district)
BID vary, also: Some BIDs simply supplement municipal services, providing extra maintenance and landscaping services, while others expand into economic and community development (business development, capital improvements, marketing, community services).

Business Improvement Districts, by whatever names provincial governments have assigned to them, have several common characteristics:

1) They are created by local governments and authorized by provincial legislation;
2) They are intended to advance economic conditions in commercial districts;
3) They are managed by public or non-profit boards, heavily weighted with local business representatives;
4) Together, BIDs create economic benefits for business organizations that the members cannot achieve individually;
5) They are not intended to substitute for ordinary municipal services;
6) BID revenues are derived from assessments on commercial properties. Annual revenues range from $10,000 to several million dollars.

Financing

Funds to pay for BID programs and services are generated from a special assessment paid by the benefited property owners. (Note: Many leases have a clause that allows property owners to pass the BID assessment on to their tenants.) The assessment is billed and collected by the municipality and then disbursed to the BID, which in turn delivers the district’s services.

Businesses within a BID are required to pay an additional tax (or levy) in order to fund projects within the district’s boundaries. “BID budgets are influenced by the value of the real estate from which they derive their property assessments, the ambitions of their leaders and the challenges they face”.

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The BID is often funded primarily through the levy but can also draw on other public and private funding streams such as a business improvement area tax, a brownfield tax incentive, a community revitalization levy.

**Implementation**

All property owners within a BID are assessed a fee in addition to their real property taxes to fund the supplemental services and programs. The collector-treasurer of the municipality collects the fee and distributes it to the management entity designated by the BID. Although the fee amount is established for each BID individually, it cannot exceed an annual one-half of one percent (.005) of the total participating members' assessed property value. However, through its improvement plan, a BID does have the option to limit or cap this maximum annual fee derived from individual properties or the total annual revenue generated by the BID. Assessments are unique to each BID and decided upon by the BID’s stakeholders.

The basis of the fee is determined by a formula using any one or a combination of the following:

1) different levels for varying classifications of real property;
2) benefit zones;
3) assessed valuations;
4) square footage;
5) street frontage; or
6) any other formula which meets the objectives of the BID.

Owner-occupied residential property, agricultural land, or tax-exempt property owners may be exempt from BID fees by a municipality. In addition, some property owners who can demonstrate that paying the fees would result in an economic hardship may be exempt from fees.

BIDs measure their success in a variety of ways:

1) Service Delivery
2) Commercial Occupancy Rates
3) BID Renewal Rates
By 2003 Canada had reported the implementation of 348 BIDs\textsuperscript{7}. BID principles and technique has been applied to a larger scale in Johannesburg through City Improvement Districts (CIDs)\textsuperscript{8}.

**Procedures**

BID formation is divided into three phases

- Phase One: Planning
- Phase Two: Outreach
- Phase Three: Legislative Authorization (pursuant to Regulations; MGA, S. 381)

**Development Incentives Examples**

Alberta encourages economic growth through many programs in the form of tax credits, cash funding, and grants. Some of the noteworthy programs that provide support are designed to aid businesses in the form of tax credits, training, and location incentives. The Government of Alberta provides incentives that focus on tax breaks for owners and developers, cash grants for tasks such as research or equipment purchasing, and funding to train employees in projects and long term skill development. CVR is able to utilize some of these benefits in applicable settings according to desired goals of the County. Please see Appendix A for further information.

For the sake of comparison, examples from other provinces are provided in the appendixes. The County will benefit from examining the provinces of Saskatchewan, British Colombia, and Ontario to understand and take advantage from the wisdom of other Canadian approaches. Saskatchewan is especially important to consider due to their close proximity and interconnected economic activities. When examining details


from other provinces, the lack of documentation of successes and failures means conclusions on the effectiveness of incentives also is deficient. Therefore, the County must use these examples to inform implementation of incentives, but cannot assume their effectiveness in any environment. For further information on British Columbia, Saskatchewan, and Ontario development incentives, please refer to Appendix B.

For the sake of completeness, the United Kingdom, Australia, and New Zealand were selected to consider non-local approaches to incentives beyond North America. These can provide understanding of world approaches such as trade agreements that bring in revenue from other countries. CVR would benefit from understanding world trade activities to inform how to approach interprovincial incentives by appreciating that economic activity is interconnected with diverse economies. This is quite relevant given the location of the County in relation to North America trading routes.⁹ Please see Appendix C for select examples that are relevant to the goals and challenges of the County.

**Alberta Examples**

**Strathcona County**

Although Strathcona County themselves do not offer many local incentives, their presentation of information and research is quite comprehensive. They focus mostly on connecting stakeholders to incentives. Their website is presented to prospective developers in an exciting and intuitive manner that makes accessing relevant incentives and material easy and accessible.

Main incentives through Strathcona County and the province include:

- No business licence fees or registrations
- No provincial sales tax
- No payroll tax
- No inventory tax

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⁹ For more information on international trade corridors in Alberta visit [https://www.alberta.ca/economic-corridor-development.aspx](https://www.alberta.ca/economic-corridor-development.aspx)
- No health care premiums
- Free provincial health care insurance
- Lower personal income tax rates
- Federal and provincial incentives and grants
- Small business income tax rate of 2%
- Corporate income tax rate of 11%

Strathcona County does not charge business registration fees or business taxes. They are not offering any other incentives through the County at this time. When contacted, the County representative unofficially commented that they may work to develop further incentives in the near future. Currently, the County provides those interested with a long list of incentives through Federal, Provincial, local, regional, venture capital groups, and not-for-profit programs on a very easy to navigate website. Please see Appendix D for examples of incentives listed on the Strathcona County website. [https://www.strathcona.ca/business-and-development/business/business-development/starting-a-business/financing/](https://www.strathcona.ca/business-and-development/business/business-development/starting-a-business/financing/)

**Lethbridge Region - Community Futures Lethbridge Region (CFLR)**

The Lethbridge region took a different approach by forming an independent body called Community Futures Lethbridge Region (CFLR). The CFLR board is comprised of members from Lethbridge County, City of Lethbridge, as well as Towns and Villages from the surrounding area, and two members at large. This is a non-profit organization funded by Western Economic Diversification Canada. They run specialized business programs, actively work with the community, organize business events, and offer a wide range of services to support small scale businesses, management tools, business expansions, franchise, or selling a business. They provide access to business coaching and business programs with advisors available for the first four hours for free, and other services at a low cost. CFLR also gives out business loans for up to $150,000 and business improvement loans up to $10,000. They also have an easy to navigate website with information on federal and provincial funding and grants, alongside with other related information such as market research, industry trends and characteristics. Website: [http://lethbridgeregion.albertacf.com/](http://lethbridgeregion.albertacf.com/)
Lacombe County
Lacombe County currently offers three development incentive grants through the municipality. The first is aimed at encouraging businesses to locate in the Hamlet of Mirror, which offers a reduction in municipal taxes. The second allows businesses starting on an unimproved parcel of land or a vacant building, to apply for up to a 100% off their municipal property taxes (Tax Increment Financing) with it decreasing by 10% every year for a total of ten years. Third, business expansions may be eligible for a rebate of 100% of the net increase in municipal taxes for a year. No other incentives are listed on the website.
Website: https://www.lacombecounty.com/index.php/development-improvement-grant

Long Term Impacts of Development Incentives

Economic development incentives are not inherently good or bad or right or wrong. The manner in which they are implemented and whether they generate the desired economic benefit is what counts. In the short term, incentives can be a benefit for local economic development, but their impact in the long term depends on the area and how the program was designed in the first place. The most successful incentives programs are those tailored to meet the particular needs and types of businesses and development within a specific area.

It is also important to recognize a hidden benefit to the County with effective follow-up and transparency. If the County shares and maintains statistics on the implementation of incentives, these can be promoted as a selling point to prospective developers and businesses, while also engendering trust within the community. This trust capital is important to abating fears of deceit or misuse of tax-breaks in both community and prospective members and generates a climate of certainty and predictability very attractive to investment.
Conclusion

Currently, only larger municipalities are offering programs, incentives, or are even engage in these efforts by providing a guide to what is available through other channels, whereas most rural municipalities are offering none.

The recent MGA amendments give municipalities the flexibility in creating their own eligibility criteria to provide incentives in a way that work best unique to each area/community. It is up to the municipalities to use this advantage to their benefit and mould the criteria effectively so they can work with developers and business owners with the aim to attract and encourage economic growth and diversity locally. These changes to legislation make Alberta an attractive destination for investment by providing one of the longest duration (up to 15 years) of property tax incentives in North America whereas many jurisdictions in Canada and United States usually allow up to 5 to 10 years. This capacity can also be used to implement location incentives, which before Bill 7 was implemented, only existed for healthcare facilities.

Municipalities however, are not required to report back to the province about their tax break failures or successes, which means less work, but can make it harder to track the effectiveness and efficiency of implementing incentive strategies. Requiring incentive participants to report back, so results can be recorded, would help improve a municipality’s chosen incentives program. This will require continued research and changes to be implemented with each recorded study as needed. Recorded statistics, if published, would also increase people’s trust in the incentives and take away any fears of misuse of tax breaks.

The true cost or result of development incentives is the difference between the revenue generated and other statistics (such as job creation), and the price tag for the municipality on the incentive. This information is vital to understand the competence of the incentives and determining how costly the incentives are by comparing the growth generated with and without them. It is important to keep in mind is that when businesses choose a location they consider multiple factors such as access, livability, available pool of potential employees, and the cultural climate. Actually, incentives may only make for a small portion in the decision of a business choosing one location over another. Nevertheless, so long as the business sets up shop, jobs will follow.
APPENDIX A
Alberta Economic Development Incentives Programs

Tax incentives/Tools

- **Capital Investment Tax Credit (CITC):** “Non-refundable tax credit of 10% of eligible capital expenditures, up to $5 million…” Eligible costs include the purchase of machinery, equipment and buildings.

- **Scientific Research and Experimental Development Tax Credit (SR&ED):** Refundable tax credit up to 10% of eligible research and development up to $4 million.

- **The Alberta Investor Tax Credit (AITC):** “A 30% tax credit is provided to investors who provide equity capital to Alberta small businesses (less than 100 employees) doing research, development or commercialization of new technology, new products or new processes.”

- **Interactive Digital Media Tax Credit (IDMTC):** “Refundable tax credit equivalent to 25% of the labour costs associated with an interactive digital media activity.” Additional tax credit of up to 5% for corporations who hire employees from under-represented groups.

Training Incentives

- **Canada-Alberta Job Grant:** “Employers receive up to two-third of direct training costs per employee up to a maximum of $15,000 per employee per year. Individual employers will have a cap of $300,000 for the amount of grant funding they can receive per fiscal year.”
Local Incentives

- **Opportunity Calgary Investment Fund:** A $100 million cash grant is available to catalytic projects to support high-growth and high-wage industries based in Calgary.

APPENDIX B
Development Incentives in Other Canadian Provinces

British Columbia

**BCIC Innovator Skills Initiative (BCIC-ISI):** For BC based technology companies to access skilled workers, training and resources. Students are selected to work with companies that are paid through a $2500 - $7500 voucher.

**Strategic Priorities Fund (SPF):** Application based program to support infrastructure and capacity building projects. Maximum contribution – up to $6 million per project.

**Canada-BC Job Grant:** $10,000 - $15,000 for training costs per person.

**Scientific Research and Experimental Development Tax Credit (SR&ED):** Refundable tax credit to a maximum of 10% up to $3 million.

**Interactive Digital Media Tax Credit (IDMTC):** Refundable tax credit equivalent to 17.5% - 19.5% of the labour costs associated with an interactive digital media activity.

**Training Tax Credit for Employers:** “Refundable tax credit available to employers who employ workers enrolled in a certified apprenticeship program.”

**Property Tax Exemption:** “Tangible personal property, such as production machinery, business equipment, furniture, and inventories, is exempt from property taxes in British Columbia.”

Manufacturing and Processing Profits Tax Reduction: Up to 2% points in reduction on the provincial corporate income tax rate on manufacturing and processing profits.

Manufacturing and Processing Investment Tax Credit: Tax credit equal to 6% of the total capital cost of the asset. Designed to encourage plant and equipment investment.

Manufacturing and Processing Exporter Tax Incentive: Non-fundable tax credits up to $3,000 - $13,000 to businesses that expand the number of their full-time manufacturing employees above the number that was employed in 2014.

Research and Development (R&D) Tax Credit: Partially refundable tax credit of 10% for R&D activities on the first million dollars per year.

Saskatchewan Commercial Innovation Incentive (SCII): “Tax incentive that offers eligible corporations a reduction of the provincial Corporate Income Tax (CIT) rate to 6%, for a period of 10 consecutive years for utilizing qualifying intellectual property in the province.”

Saskatchewan Value-Added Agriculture Incentive (SVAI): Non-refundable and non-transferable tax credit equal to 15% of the investment for new or existing value-added agriculture facilities that make a minimum capital investment of $10 million.

Municipal Property Tax Abatement: “Legislation allows Saskatchewan municipalities to offer discretionary five-year property tax abatements.”

Canada-Saskatchewan Job Grant: “Provides discretionary grants of up to $10,000 in training resource assistance per trainee. Maximum of $250,000 per company per year.”

https://blsstrategies.com/saskatchewan.
Ontario

**Jobs and Prosperity Fund:** Discretionary grants up to 20% and loans up to 40% for companies making large strategic investments in one of Ontario’s priority sectors.

**Co-operative Education Tax Credit:** “A refundable tax credit available to employers who hire students enrolled in a co-operative education program at an Ontario university or college.”

**Ontario Research & Development Tax Credit (ORDTC):** 3.5% - 5.5% non-refundable tax credit on R&D expenditures.

**Ontario Business Research Institute Tax Credit:** A 20% refundable tax credit on scientific research and experimental development work.

**Ontario Innovation Tax Credit:** “…a refundable tax credit to eligible corporations for qualified expenditures on scientific research and experimental development…”

**Ontario Film and Television Tax Credit:** Tax credit of 35% - 45% on labor expenditures.

**Ontario Digital Media Tax Credit:** “…to promote interactive digital media products, the province offers a refundable tax credit ranging from 35% to 40% for eligible expenditures on labor and marketing…”


[https://blsstrategies.com/ontario](https://blsstrategies.com/ontario).
APPENDIX C
International Case Studies

United Kingdom

**Foreign Tax Credit:** “...tax relief in respect of foreign dividends, so that tax suffered at lower levels in part can be relieved...”

**Enhanced Capital Allowances:** “A variety of tax incentives given in the form of enhanced tax depreciation allowances (known as capital allowances)...” For example, a full write off can be claimed for things like ‘green’ products and technologies, and energy saving equipment etc.

**Annual Investment Allowance:** all businesses, regardless of size, can claim an annual investment allowance of 100% on the first GBP 1 million. This is limited to a single allowance.

**Research and Development (R&D) Incentives:** “...deduction equal to 230% of the qualifying expenditure on R&D in the year in which it is incurred....”

**Patent Box:** “Where the taxable profits can be attributed to the exploitation of patents, a lower effective rate of corporation tax applies.”

**Other Incentives:** “A deduction equal to 150% of the qualifying expenditure on the remediation of contaminated or derelict land is given in the year incurred...”

“There are special tax reliefs available for certain expenditure on UK film production, high-end television, animation, video games, theatres, orchestras, and museum and gallery exhibitions.”

There are no tax holidays and no foreign investment incentives in the United Kingdom.

**Source:** “United Kingdom - Corporate Tax Credits and Incentives.” United Kingdom - Corporate tax credits and incentives, January 6, 2020.
Australia

Research and Development (R&D) Tax Incentive: A refundable tax offset of 43.5% for entities with turnover less than $20 million and a non-refundable tax offset for all other eligible entities.

Australian Government Restart Incentive: A financial incentive of up to $10,000 over six months for businesses to encourage employment and retention of mature age employees over the age of 50.

Certain Inputs to Manufacture (CIM) programme: A concession allowing duty free purchase of certain raw materials.

CSIRO Kick Start Grant: Up to $50,000 for start-ups and small to medium enterprises (SMEs) to conduct research for the growth and development of the business.

Australian Government Entrepreneurs Program: Consists of four sub program categories for small to medium businesses:

- **Accelerating commercialisation:** “...up to $1 million for eligible commercialisation costs to bring new products, processes and services to market.”

- **Business Management:** “Access to business advisors who will create a Business Evaluation Action Plan with recommendations for improvement and growth, as well as up to 12 months of mentoring...”

- **Incubator Support:** “New and existing incubators can receive grants up to $500,000 to help Australian start-ups develop into international markets.”

- **Innovation connections:** Access to a professional facilitator to help Australian businesses connect with experts within the research sector to help define a project scope with funding up to 50,000.

State Government Grants – New South Wales: “...A $2,000 grant to encourage businesses that currently do not pay payroll tax to hire new employees. The grant is paid for each new eligible employee hired.”

State Government Grants – Victoria: A range of assistance programs in the form of vouchers which can be used for a range of services including market engagement, innovation and business capability.
State Government Grants – Queensland: “…up to $50,000 for eligible businesses to purchase specialised equipment or services.”

Communities Environment Program: The government will invest up to $22.65 million to support cleaner and greener communities.

Agricultural Trade and Market Access Cooperation (ATMAC) Program: ATMAC grants support projects or initiatives that contribute to our agricultural trade with overseas markets. Grants range from $20,000 to $400,000.


New Zealand

**Foreign Tax Credits:** If a company derives foreign income that is subject to income tax, it is allowed a credit up to lesser of the actual tax paid on the income or the New Zealand tax applicable.

**Inbound Investment Incentives:** Designed to encourage the flow of foreign investment funds by allowing exemption from income tax.

**Trans-Tasman Imputation:** Elective rules allow trans-Tasman groups of companies to attach both New Zealand and Australian tax paid to dividends paid to shareholders.

**Research and Development (R&D) Tax Incentive:** “From the 2019/20 tax year, eligible R&D expenditure will give rise to a 15% tax credit.”

APPENDIX D
Strathcona County Website Development Incentive Examples

Federal Programs

• **Canada Business Network:** “…provides resources for starting, planning, financing, managing and growing your business, including financing opportunities.”

• **Canadian Small Business Financing Program:** “Businesses may be eligible for up to $500,000 loans for land and buildings, equipment, or renovations.”

• **Extreme Start-ups:** “A Canadian venture capital group that offers up to $200,000 to five companies per year.”

• **National Angel Capital Organization:** NACO is a community of angel investors which connects entrepreneurs with financing opportunities.

• **Scientific Research & Experimental Development Tax Incentive Program:** Provides tax refunds or credits towards expenses related to R&D.

Provincial Programs

• **Alberta Tourism, Parks & Recreation:** “Provides funding programs and grants for initiatives in sports, tourism and recreation programs.”

• **Growing Forward 2:** “A federal-provincial-territorial initiative that supports agriculture, agri-food or agri-products industries. Funding opportunities are available.”

• **Accelerate Fund:** “An early stage angel investor for Alberta technology companies.”

• **Petrochemical Diversification Program:** “Encourages companies to invest in the development of new petrochemical facilities by providing up to $500 million in incentives through royalty credits.”

• **Venture Capital Association of Canada:** “A hub for venture capital, angel investors, private equity and other programs.”
Local, Regional, Venture Capital Groups and Other Not-For-Profit Programs

- **C100**: “Provides funding, education and networking programs for technology startups.”
- **Venture Capitalists**: “Resources from the Government of Alberta regarding venture capitalists.”
- **Rural Alberta Development Fund**: “A not-for-profit organization that works with rural Albertan communities to kick-start local projects.”
- **EVOK Innovations**: “A clean tech fund that accelerates the development and commercialization of solutions to the most pressing environmental and economic challenges facing the oil and gas sector.”
- **Alberta Women Entrepreneurs**: “…A not-for-profit organization dedicated to women in business. The organization provide lending, education and other programs.