Financing Growth – Hemson Study Update

Recommendation
That the information be received.

Topic and Purpose
The purpose of this report is to provide an update on the Administration's work to address the four key issues raised in the Hemson Report on Financing Growth.

Report Highlights
1. The Hemson Report on Financing Growth identified key issues categorized under four major topics:
   - appropriate scope and levels of development levies;
   - encouragement of infill and redevelopment;
   - exploration of alternate financing tools and increase non-tax revenues; and
   - growth of non-residential property assessment.
2. An update on each of these topics is provided.
3. The Administration has been reviewing these issues and plans to address these through future reports and discussion papers as part of the Growth Plan to Half a Million.

Strategic Goal
This report supports the Strategic Goal of Sustainable Growth by understanding the components of growth, their economic impact on the city, and its relationship to different growth models.

Background
At its meeting on April 20, 2015, the former Executive Committee received and discussed a report presented by Hemson Consulting Ltd. on Financing Growth. This study was initiated by City Council primarily to provide information to help the City of Saskatoon (City) understand the current and future costs of infrastructure and civic services required to support future population growth, determine the financial impact of growth, and provide a general commentary on the costs and benefits associated with different types of development.

The study concluded that growth will not fully pay for growth as long as there are services excluded from development levies to pay for initial growth related capital investments. Using property taxes, utility returns on investment, grants and land development surpluses help fill the gap as well as contribute to projects that benefit the entire community. These funding sources need to be optimized to not only fund these capital projects but also to fund ongoing operating expenditures.

While the report concluded that growth partly pays for growth, there were a number of recommendations in the report which the Committee requested further follow up from the Administration.

At its meeting on March 14, 2016, the Governance and Priorities Committee received an update report from the Administration on the issues raised in the Hemson Study. The Administration committed to bring forward a series of discussion papers to address the issues.

At the same meeting, the Growth Plan to Half a Million (Growth Plan) was also tabled which provided a vision for City's growth and touched on many of the issues that the Hemson Study raised.

Report

Based on the Hemson Report findings, the Administration started working to address these issues with the objective of identifying and implementing changes in the following four key areas:

- appropriate scope and levels of development levies;
- encouragement of infill and redevelopment;
- exploration of alternate financing tools to increase non-tax revenues; and
- growth of non-residential property assessment.

<u>Development Levies</u>

The Hemson Study recommended reviewing development levies to ensure these are appropriate for financing the key infrastructure and services required to support population growth, either within the current legislative framework or through an expansion of the scope of the legislative framework.

Future growth, with or without the Growth Plan, comes with significant costs. However, with the Growth Plan, the costs related to strategic growth can be optimized. Even still, the costs over time will be significant; therefore, funding is of utmost importance. One of the key strategies as part of the Growth Plan is to develop and implement funding strategies of which one is the use of development levies.

The Hemson Study identified that growth will not fully pay for growth provided there are costs excluded from development levies and given that the City alone typically front ends major infrastructure costs (e.g. major trunk systems).

The Administration is preparing a discussion paper to summarize the City's current development levies and options for consideration. Some levies for consideration would require legislative changes, however, there are some opportunities that the existing legislation provides that are not currently within the City's development levy structure. These are major policy decisions that impact both the development industry as well as the financing capacity of the City to provide the necessary infrastructure for growth. It is expected that this paper will come in the second quarter of 2017. This discussion is timely as the provincial government will be consulting with stakeholders in 2017 for input into changes to *The Planning and Development Act*.

Infill and Redevelopment
The Hemson Study also recommended that the City ensure infill and redevelopment are supported and promoted to make efficient and effective use of existing infrastructure.

The Growth Plan lays out a framework for rebalancing growth that includes new suburban growth, continued neighbourhood level infill, strategic infill, and a new opportunity for growth along major corridors throughout the city. This framework for accommodating growth through infill has been the subject of reports and discussions at previous Standing Policy Committee meetings, such as zoning bylaw amendments to allow garden and garage suites, and new development standards for primary dwellings in the established neighbourhoods.

During its August 16, 2016 meeting, the Standing Policy Committee on Transportation also discussed the need to review policies and developer funding requirements tied to lane paving resulting from new infill projects. As part of this discussion, the Administration committed to table an interim report in December 2016 to the Standing Policy Committee on Planning, Development and Community Services to consider and approve the scope of an analytical review of differences between infill and greenfield development. Included in this review will be the identification of the obstacles and cost differences that developers face with infill development. The costs to both developers and the City need to be understood in order to allocate these appropriately. This multi-departmental review is tightly linked to the concepts within Growth Plan since infill development is a key strategic priority. This review will at the same time start to address the issues raised by the Hemson Report.

Alternate Financing Tools to Increase Non-Tax Revenue
The Hemson Report recommended that the City investigate alternate financing tools aimed at increasing non-tax revenue sources.

The Administration has begun the review of options and included increases to self-generated revenues through return on investment from the water and wastewater utility in the 2016 budget and preliminary 2017 budget. This strategy was presented to City Council during the 2016 budget reviews.

The internal auditor, PricewaterhouseCoopers, is also undertaking an advisory review of this subject and is planned to report to the Standing Policy Committee on Finance in early 2017 on the findings from this review.

A report discussing revenues was also tabled with the former Executive Committee at its meeting on August 19, 2015. As part of this report, a discussion paper was tabled on the principles, concepts and ideas on how the City pays for operating programs and services. This paper looked at how the City currently funds services through property taxes and/or user fees as follows:

- fully tax-supported (no user fees) – services provided for everyone, such as police and fire services, roads and local parks;

- partially tax-supported (reduced user fees) – services that benefit both individuals and society at large, such as recreation facilities and public transit;

- no tax support (full user fees) – services that primarily benefit the individual, including water, wastewater, and golf courses; and

- licences, permits and approvals (full user fees) – services that regulate the use of, or changes to, private property, such as building permits, development permits, business licences, and pet licences.

The paper concluded that the City should consider:

- developing a user fees and subsidies policy that clearly articulates how municipal services should be paid for;

- funding those services that provide collective benefits to the community through property taxes;

- funding those services that provide benefits to individuals or households through user fees;

- funding those services that provide both individual and collective benefits through a combination of taxes and user fees; and

- reducing its reliance on government transfers to help offset the full costs of providing a good service that elicits a benefit to individuals.

The Administration plans to bring forward a user fees and subsidies policy in 2017 for City Council's consideration.

In addition, a report will be presented to the Standing Policy Committee on Transportation in the first quarter of 2017 to address a question raised at the Growth Summit in March 2016. This report will address how the costs of delivering transit services compare to the cost of roads and the corresponding cost allocation to users of transit and tax payers.

Increase Non-Residential Taxable Assessment
The Hemson Report identified that the City of Saskatoon ratio of residential to non-residential assessment is 71:29. Compared to the City of Calgary which is a 50:50 split, the increased value in commercial assessment provides more taxable revenues. As a result, the Hemson Report is recommending the investigation into ways of increasing non-residential taxable assessment.

Increasing commercial development is linked to the broader strategies associated with economic development and the attractiveness of the city of Saskatoon. Quality of life, productive infrastructure, tax competitiveness, availability and suitability of developable land and services are all factors that attract business to the city. City Council, through the Strategic Plan and Business Plan, has set goals and have approved many projects and initiatives aimed at these improving these factors.

The Administration is also preparing a discussion paper regarding the property tax policy of shifting commercial to residential taxes which is currently set at a ratio of 1:75. The argument promoted by the business community is that by keeping the commercial to residential tax ratio low, this will attract business to the city. This review paper will attempt to address the effectiveness of this ratio and will be tabled in early 2017.

The Growth Plan also incorporates elements from the Employment Areas Study, which reviewed current and future employment needs to ensure that sufficient and suitable land is available to support a growing population. While keeping the downtown strong, which is supported by the City Centre Plan, a city-wide Land Use Plan for Employment Areas is part of the requirement to ensure strategic growth.

Communication Plan

To ensure that residents and stakeholders are aware of the City moving toward implementing the findings of the Hemson Report, the resultant series of discussion papers and the implementation of the Growth Plan will be supported by communications which may include a news release, upload of easy-to-find overview information on the City's website (saskatoon.ca) under the Financing Growth section of the *Growth Plan to Half a Million*, updating the Frequently Asked Questions about Growth in Saskatoon as required, and social media.

Communications to support and provide further information around the question "does growth pay for growth?" will include creating ongoing awareness through social media for the existing educational video series on the City's website:

- How Your City Budget Works
- How Municipal Tax Differs from Federal & Provincial Tax
- What Contributes to Property Tax Increases

Due Date for Follow-up and/or Project Completion

It is the intent that the Administration transition from reporting based on the Hemson Report to bring the majority of the topic discussions from the study under the umbrella of the Growth Plan, due to the direct impact on growth. Some topics that are not directly attached to the Growth Plan (Attachment 1), such as alternate revenue sources and tax policy, will be discussed at the appropriate Standing Policy Committee through separate reports.

Public Notice

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

Attachment

1. Outline of Key Discussion Topics from Hemson Report

Report Approval

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Outline of Key Discussion Topics from Hemson Report

Development Levies

Development levies are collected for local and offsite services required to service new development. These fees are administered through annual Prepaid Service Rates (direct and offsite). The levy is currently charged on a lot-front meter basis for residential lots that have an area less than 1,000 square meters and commercial developments that are greater than 1,000 square meters. Industrial lots are also charged on front-meter basis. Developments outside of these parameters are charged on an area basis.

These levies are collected on a city-wide basis and are not differentiated on a geographical area. Levies are collected on infill development or redevelopments when a subdivision is required.

The Hemson Report identified that there are opportunities to increase the scope of the levies, review the scale of the levies on how they are applied, and that there needs to be clarity of the levies as to how they are calculated and allocated.

The Hemson Report noted that there are some development levies that the City is legislatively eligible to collect for but does not (increase scope of the levies). These are:

- water and wastewater treatment plants and expansions;
- bridge infrastructure (e.g., North Commuter Parkway); and
- major recreation facilities (e.g., aquatic centres and arenas).

Discussion Points	Responsibility	Timeline
Consideration of charging levies that are allowed under current legislation but not included as part of the City's development levies. For example, an amount for water and wastewater plant capacity, leisure centres and ice arenas (increase in the scope of the levies).	• Various Departments • Growth Plan	First half of 2017
Community Services consideration of funding leisure centres through the parks and recreation levy (increased scope of the levy).	• Community Services	First half of 2017
The unit structure of the development levy should consider using building area instead of frontage (scale of the levies).	• Transportation & Utilities	2018
Need to provide the details of the calculation of the development levy (clarity of the levies).	• Transportation & Utilities • Asset & Financial Management	Early 2017

Discussion Points	Responsibility	Timeline
Consider advocating to the province for increased scope of development levies (scope of the levies).	• Various Departments • Growth Plan	Province has requested submissions for revisions to *The Planning and Development Act* in 2017

Infill and Redevelopment
The Hemson Report included a high-level analysis of costs associated with different types of growth. As Saskatoon grows, different types of development impact costs in different ways.

Minor Infill Projects: These are small developments within existing neighbourhoods taking the form of one, two, semi-detached and multi-unit developments. They typically use existing capacity in municipal services and infrastructure. These projects generally have minimal impact on the City's operating and capital costs. Tax revenues on new infill construction tend to be as high as or higher than neighbouring houses.

- Major (Strategic) Infill Projects: Larger developments on vacant or redevelopment lands within existing areas can have positive impacts if they utilize unused capacity in existing services and infrastructure. For example, major infill projects can improve transit efficiency when built around existing routes. For example, the College Quarter is being designed to take full advantage of a potential BRT system on Preston Avenue and College Drive with transit-oriented development. Tax revenues on new infill construction tend to be as high as or higher than comparable existing houses.

- Greenfield Development: New subdivisions built on vacant land require new local infrastructure and also use capacity of city-wide infrastructure. Most of this new infrastructure is funded by development levies. Operating costs are in line with similar existing houses. There are few opportunities for cost savings in greenfield development, but tax revenues per household tend to be above average. Increased density has benefits, but are restricted to those services which are reliant on "linear infrastructure" (roads, water/sewer, etc.). Services which are "people driven" are largely unaffected by changes in density (recreation centres, daycares, libraries, etc.). Efficiencies gained by higher densities are relatively small in relation to the overall requirements for new people-driven services.

- Non-Residential Development: Over time, office, retail, industrial and institutional development tends to increase in line with residential growth. Non-residential development is distributed throughout the city. The infrastructure needs and cost of providing services to non-residential development is generally less than for residential development. It has been noted by Hemson that, since 2009, the proportion of taxable assessment coming from non-residential development has fallen from 30.2% to 29.0%. This means that the residential sector within Saskatoon has had to pick up a larger share of the overall taxable assessment.

Discussion Points	Responsibility	Timeline
Major infill projects where existing infrastructure capacity is insufficient, the cost of new infrastructure is very high.	• Asset & Financial Management • Growth Plan	2017 – 2018
Only part of the non-residential development that results from population and employment growth is likely to be located in greenfield developments and the financial impacts do not capture the overall effect on the City's finances.	• Asset & Financial Management • Growth Plan	2017 – 2018
A redevelopment levy could be established based on the increased demand for new servicing caused by redevelopment, in particular, key corridors and strategic infill areas.	• Asset & Financial Management • Growth Plan	2018
Consideration of tax incremental funding (TIF) for revitalization of brownfield sites.	• Asset & Financial Management • Growth Plan	2017 – 2018
Value capture fees should be considered for properties that benefit from investments made to public infrastructure and changes in land use regulation.	• Asset & Financial Management • Growth Plan	2017 – 2018

Alternate Funding Tools and Self-Generated Revenue

As identified in the Hemson Report, property taxes are becoming a larger share of the City's total revenue base. Non-tax revenues are not keeping pace with rate of growth; therefore, a greater share of city expenditures have to be raised through property taxes.

Discussion Points	Responsibility	Timeline
Funding Growth-Related Infrastructure: The Hemson Report discusses some options to consider for funding growth-related infrastructure. These include: • continued use of property taxes • continued use of utility revenues (ROI) • installment based development levies • up-front development levies • density borrowing • value capture fees • tax incremental funding (TIFs) • land transfer taxes • greater use of Public-Private Partnerships (P3) • front-end financing agreements with developers • reviewing user pay opportunities rather than using general taxation to pay for services • advocating for broader taxing powers	• Internal Audit on Alternate Revenues • Various Departments • Growth Plan	• Early 2017 • 2017 – 2018

Discussion Points	Responsibility	Timeline
Share of Existing Taxes: Existing taxes include income taxes, gaming taxes, resource revenue, fuel tax, and alcohol and tobacco tax. The City currently receives a share of provincial tax revenues through the Municipal Revenue Sharing Program.	• Asset & Financial Management • Government Relations	2017 – 2018
Vehicle-Specific Selective Taxes (User Pay Tax): This can be ear-marked for transportation infrastructure/maintenance and can include: • local fuel tax • local car rental tax • local tax on parking (both private and public)	• Asset & Financial Management • Government Relations	2018
Visitor-Specific Selective Sales Tax: The City plays a role as a hub for a larger metropolitan area and a regional centre for commerce and tourism. Funds can be targeted towards tourism-related capital and can have a sunset clause, if appropriate. They can also be used to offset the costs of policing or public safety. Examples include food and beverages taxes, and gambling tax.	• Asset & Financial Management • Government Relations • Growth Plan	2017 – 2018
Special Purpose Local Option Sales Tax (Penny Tax): This is a broad-based general retail sales tax levied at the local level and dedicated for a specific purpose (e.g., proceeds go to fund/finance a recreation centre). This tax is adopted through plebiscite and "sunsets" once the required funding has been achieved.	• Asset & Financial Management • Government Relations • Growth Plan	2017 – 2018
Special Assessments (Local Improvement): A special assessment is a specific charge added to the existing property tax to pay for improved capital facilities that border them.	• Asset & Financial Management • Government Relations • Growth Plan	2017 – 2018
Self-Generated Revenue: The City is fortunate to have a land development business unit (Saskatoon Land) that provides dividends to fund a variety of initiatives such as the Pleasant Hill Neighbourhood Revitalization project, Mayfair Pool, affordable housing incentives, designated land purchases, and operating budget contributions. In total, about $124 million in neighbourhood land development fund surpluses have been distributed to date. The Hemson Report notes that only a small share of the surpluses has been allocated to growth-related infrastructure. However, the distribution of future surpluses are planned to be based on a guideline of	• Various Departments • Growth Plan	2017 – 2018

10% to future land development acquisitions, 65% to growth-related infrastructure, and 25% for general capital expenditures. The City also has a number of utilities including Saskatoon Light & Power (SL&P) and Saskatoon Water. SL&P contributes a Return on Investment (ROI) to the City's general fund and, for the first time, the 2016 budget included an ROI added from the Saskatoon Water utility. These utilities are a key source of self-generated revenues for the City.		

Property Taxes and Non-Residential Property Assessment
Property taxes fill the gap for growth-related infrastructure that is not covered through development levies, grants, or land development surpluses. These projects include Fire Halls, Police Headquarters, Transit, Solid Waste, Public Works, Libraries, and General Administration. In addition, property taxes help fund the maintenance, rehabilitation and replacement of existing infrastructure for these services.

The cost of growth by providing new infrastructure and services to meet new growth in population cannot be covered strictly by incremental taxes from new assessment. For example, the cost of new city-wide infrastructure such as river crossings, fire halls, recreation centres, art galleries, libraries, convention centres and arenas, to mention a few, need to be planned for and funded on a city-wide basis. The cost of these amenities is over and above the development fees charged and collected from new land development, as many of these are not possible under the current provincial legislation. Long-term financial planning is required for these future costs through flexible but dedicated funding plans that leverage funds from other orders of government and external partners, but also require mill rate funds. These funding plans rely on operating budget contributions that place pressure on the property tax.

While Saskatoon has been growing, both in terms of housing and the economy in general, growth in the economy does not automatically translate into increased municipal revenues. Municipal taxes are based on assessed properties. An increase in the number of assessed properties results in increased tax revenues. However, increases in assessed values through the current four-year revaluation cycle do not translate into increased tax revenues, as City Council has a policy to maintain revenue neutrality caused by the revaluation. While nearly all Canadian municipalities maintain revenue neutrality, it is only those that have a shorter revaluation cycle that could stray from this policy, thereby minimizing large swings in assessed values.

Discussion Points	Responsibility	Timeline
Non-residential property assessment, while growing, is not keeping pace with the increases in residential assessment, which means the mix of assessment is shifting from a higher revenue-generating assessment type (commercial and industrial) to a lower one (residential). This raises the question as to why more people are moving to and living in Saskatoon but yet the commercial growth in assessment is not keeping pace. Why are people moving to the city and what industries are employing these people?	• Various Departments • Growth Plan	2018
Contributing to the tax ratio of more commercial to residential taxes is the City's tax policy to shift commercial and industrial taxes so that the ratio of commercial municipal taxes to residential is 1.75. While this does not increase the overall tax revenue, it does place more of the tax burden on the residential property owners. Having said this, the question remains - does this shift contribute to a favourable business environment to attract businesses to the city, and therefore, an increase in the commercial assessment base? If the answer is yes, could this ratio be decreased further? If the answer is no, does it make sense to stop shifting taxes?	• Asset & Financial Management • Government Relations	2017