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

2. The Administration has been reviewing and working on addressing these issues and plans to bring forward a series of discussion papers for City Council's consideration.

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. The report, Financing Growth Study, was initiated by City Council in order 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;

- provide a general commentary of the costs/benefits of different types of development; and

- provide a communication tool designed to help the general public understand the relationship between property taxes and the costs of growth.

The Hemson Report studied the City's policies and funding strategies to help answer the questions in the community about how growth is funded and whether or not growth pays for growth. The report concluded that the answer is "partly" for the following reasons:

- 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).

- Self-generated non-tax revenues are not keeping pace with costs and are growing at a decreasing rate.

- Residential taxable assessment is growing faster than non-residential assessment resulting in the residential sector funding a greater share of costs (shifting ratio of residential/non-residential).

- Population is increasing at a faster rate than household formation wherein the costs have increased faster than assessment growth. Results in assessment growth per capita are declining and less revenue per capita to pay for services.

- Intensification of existing areas (minor and major infill) needs to be considered since it has the potential to achieve cost savings (both capital and operating) and also has the tendency to have higher assessment than neighbouring properties.

The Executive Committee resolved that the Administration report back on the implementation of the findings of the Hemson Report.

Report

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

- ensuring development levies 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;

- ensuring infill and redevelopment is supported and promoted to make efficient and effective use of existing infrastructure;

- investigating alternate financing tools and increasing non-tax revenue sources; and

- investigating ways to increase non-residential taxable assessment.

To address each of these four areas, the Administration will present a series of discussion papers to the Governance and Priorities Committee. Attachment 1 outlines some of the key points under each of the headings that will be presented for discussion and potential solutions or initiatives for consideration. This list attempts to provide some advance notice of the key points for future consideration.

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 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 *Growing Forward! Shaping Saskatoon*, updating the Frequently Asked Questions about Growth in Saskatoon as required, and social media. The individual discussion papers will be presented with a cohesive look to form a series of supporting documents around Hemson's Financing Growth Study, April 2015.

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

Development of a website short link (saskatoon.ca/hemsongrowth) will also ensure information related to Hemson's Financing Growth Study is easy to find and reference.

Due Date for Follow-up and/or Project Completion
Each of the four discussion papers will be brought forward to the Governance and Priorities Committee throughout 2016.

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 and are also not charged on infill development or redevelopments, except where 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).

<u>For Further Discussion</u>

1. 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).

2. Community Services consideration of funding leisure centres through the parks and recreation levy (increased scope of the levy).

3. The unit structure of the development levy should consider using building area instead of frontage (scale of the levies).

4. Need to provide the details of the calculation of the development levy (clarity of the levies).

5. Consider advocating to the province for increased scope of development levies (scope of the levies).

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, 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 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.

For Further Discussion

1. Major infill projects where existing infrastructure capacity is insufficient, the cost of new infrastructure is very high.

2. Only a 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.

3. 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.

4. Consideration of tax incremental funding (TIF) for revitalization of brownfield sites.

5. Value capture fees should be considered for properties that benefit from investments made to public infrastructure and changes in land use regulation.

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 and therefore a greater share of city expenditures have to be raised through property taxes.

For Further Discussion

1. 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;
   - front-end financing agreements with developers;
   - reviewing user pay opportunities rather than using general taxation to pay for services; and
   - advocating for broader taxing powers.

2. 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.

3. 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; and
   - local tax on parking (both private and public).

4. 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.

5. 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.

6. 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.

7. 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 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 and this form of revenue will be reviewed as part of the discussion paper.

   The Administration is reviewing the Hemson Report recommendations under this section and will be presenting a series of discussion papers and options for City Council to consider.

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 levels 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.

<u>For Further Discussion</u>

1. 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?

2. 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?