

GROWTH IN SASKATOON: KEY FINDINGS FROM HEMSON CONSULTING Ltd. REPORT & FREQUENTLY ASKED QUESTIONS

DOES GROWTH PAY FOR GROWTH?

Hemson Consulting concludes that growth mostly pays for growth. Growth pays for most of all new capital costs within a neighbourhood, such as roads within the neighbourhood, sidewalks, street lights, storm sewers and drains. This is paid for by the developers when they build a new neighbourhood.

But individual neighbourhoods don't pay for all things that a growing city needs, things like police stations, fire halls, freeways, river crossings, major recreation facilities, and so on.

The City collects a levy from developers to pay for SOME of the things that a city needs that are outside of a neighbourhood. A portion of interchanges, underground sewer and water pipes connecting the neighbourhood to the main system, and some major parks and sportsfields are paid for by the developers when they build new neighbourhoods.

But the levy from the developers currently doesn't cover everything.

The Province of Saskatchewan determines what levies and taxes cities can collect, and by legislation, the City of Saskatoon could actually collect more levies from developers to pay for:

- Water and wastewater treatment plants and expansions
- Bridges
- Major recreation facilities

As Saskatoon grows, we need to continue to build capital infrastructure such as bridges and water treatment plants. But these need to be paid for. So, whatever isn't covered by the development levies, or by contributions from the Province of Saskatchewan and the Government of Canada, is paid for through property tax.

WHY ARE PROPERTY TAXES RISING?

Over the past five years, the City has experienced both high growth and higher than normal property tax increases. Hemson Consulting was also asked to find reasons why property taxes are rising more quickly than cost increases. According to their report, property taxes have been rising because of:

1. **Inflation** - Actual City costs per household have increased faster than what the City is collecting for inflation. The basket of goods the City pays for (labour, fuel, asphalt, electricity, facility/equipment repairs, maintenance costs) is increasing faster than the average inflation rate.

2. **Increased capital infrastructure** – road replacement costs, debt payments to pay for major capital expenses, and putting tax dollars into reserves to pay for things like sewer and water pipe replacement, means there is less available to cover our day-to-day costs of providing our services.
3. **Increased services** – The City has significantly increased the amount of property tax dollars spent on the maintenance of roads, sidewalks and bridges, as well as street sweeping and snow and ice removal.
4. **Some revenues are growing slowly** and are not keeping pace with cost increases. The City collects five types of revenue:
 - a. Transfers from Federal and Provincial Governments
 - b. Property Taxes
 - c. User Fees
 - d. General Revenues
 - e. Grants in Lieu

User Fees, General Revenues and Grants in Lieu are all considered City Non-Tax Revenues, and these revenues are not keeping pace with our costs.

For example, General Revenues from Saskatoon Light and Power (SL&P) are increasingly needed to replace aging electrical lines and sub-stations, so their available contribution to General Revenues is less.

Grants in Lieu of taxes are grant payments from the federal and provincial governments in place of property taxes for government owned/managed properties. There are fewer provincial and federal properties, so there has only been a slight increase in this category.

User fees are collected from individuals using specific City services such as Leisure Centres. However, in recent years the amount of revenue collected from user fees at our Leisure Centres has been lower than anticipated.

5. **Assessment per capita is decreasing** – The City collects tax revenue from properties and provides services to people. The number of people is increasing at a faster rate than the number of households and this can create a gap in costs exceeding available revenues.
6. **Non-residential versus residential taxable assessment** – residential property taxes are paying a higher share of the property tax than non-residential (commercial and industrial properties).

GROWTH AND DEVELOPMENT IN SASKATOON

How much is Saskatoon expected to grow?

Saskatoon is forecasted to grow by 250,000 people over the next 30 years. This is roughly 2.5 times faster than the city's long-term historical growth rate. If the forecast is correct, Saskatoon will double to half a million people by 2045.

What are the benefits of growth?

- More employment and business opportunities
- More cultural and social opportunities
- Increased economic activity
- Ability to sustain and potentially expand services such as recreation programming, social services and transit

What challenges does Saskatoon face during high growth periods?

- Increased financial pressure to build, pay for and maintain the infrastructure necessary to service new homes and commercial properties (interchanges, bridges, water and wastewater treatment plant expansions, recreation and cultural facilities, libraries, transit facilities, police and fire stations)
- Increased demand on existing civic programs and services (attainable housing, recreation facilities and leisure programs, fire and police services)
- Increased traffic congestion with more vehicles on existing roads
- Maintaining existing infrastructure while constructing new infrastructure
- Rising housing costs
- Effectively planning new developments to ensure long-term sustainability

FUNDING GROWTH-RELATED INFRASTRUCTURE

What infrastructure is added when Saskatoon grows, and who pays for it?

Infrastructure is a necessary part of growth. It falls into two categories.

- **Direct** infrastructure includes roads, street lights, sidewalks, storm sewers and drains located within a newly developed neighbourhood. Land developers pay for all “on-site” costs.

- **Off-site** infrastructure includes arterial roads, interchanges, bridges, trunk sewers, primary water mains, water and wastewater treatment plant expansions, major recreation and cultural facilities, libraries, police and fire stations that are in the city but outside the new neighbourhood and/or sector.

What are development levies?

Most off-site costs are covered in whole or in part by development charges (levies) paid to the City by land developers. Developers collect the fees as a portion of the price of the residential and commercial lots they sell. The City is responsible for all costs not included in development levies.

How does the City pay for costs not included in development levies?

The City pays for off-site infrastructure not covered by development levies in several ways, including:

- Property taxes
- Utility rates for water and electricity
- User fee revenues, such as admission to civic recreational facilities
- Applicable provincial and federal grants
- Surpluses from the sale of land serviced by the City's Saskatoon Land Division
- Other financing tools, such as Public-Private Partnerships (P3s)

MORE ABOUT DEVELOPMENT LEVIES

What capital costs are included in development levies?

Saskatchewan legislation allows municipal governments to include infrastructure costs in development levies related to:

- Roads, trunk sewers and primary water mains
- Parks and recreation
- Water and wastewater expansion (plants and pipes)
- Stormwater systems

What capital costs can be included in development levies but currently are not?

- Bridges
- Major recreation facilities
- Water/wastewater treatment plants and plan expansions

What capital costs cannot be included in development levies?

Saskatchewan legislation does not allow municipal governments to include all costs related to growth in its development levies. For example, the following costs are not allowed:

- Attainable housing
- Libraries
- Police and Fire services
- Transit services

The majority of these costs are typically paid for through the collection of property taxes and user fees.

While new growth does a good job paying for most capital costs there may be development costs that could be captured by levies that the City currently doesn't collect. Any capital costs not covered by development levies must be covered by other City revenue sources which are predominantly from the property taxes.

THE COST OF DEVELOPMENT

As Saskatoon grows, different types of development impact costs in different ways.

- **Minor Infill Projects:** Small developments within existing neighbourhoods 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 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, infill projects can improve transit efficiency when built around existing routes. 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.
- **Non-Residential Development:** Over time, office, retail, industrial and institutional development tends to increase in line with residential growth. Such non-resident 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.

HOW GROWTH AFFECTS YOU

How does growth impact City revenues and expenditures?

Development increases both costs and revenues.

- **Revenues:** New homes and commercial properties generate additional tax revenues. A growing population generates more revenue from user fees (e.g., increased use of transit, leisure facilities). Some of the provincial and federal grants the City receive also increase as population increases.
- **Capital Expenditures:** A growing population requires the City to provide services to more households and commercial properties. The City must pay for all growth-related infrastructure not recovered by development levies (e.g., expansion of water/wastewater treatment plants).
- **Operation and Maintenance:** New development requires the City to expand the services it provides, which increases operation and maintenance costs. For example, a growing population needs additional police officers and recreation programs; new neighbourhoods need new roads and fire stations.