

COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

RECOMMENDATION

That the February 22, 2022, Urban Planning and Economy report UPE00880, be received for information.

Report Purpose

Information only.

To inform Council of the performance of the three Community Revitalization Levy (CRL) areas, including financial projections, development progress and an update to ongoing Capital projects.

Executive Summary

- The City of Edmonton uses the Community Revitalization Levy (CRL) program in three areas (Capital City Downtown, The Quarters Downtown and Belvedere) to fund City investment in catalyst projects.
- A CRL is a provincially legislated funding tool that provides up to 20 years of stable funding for public infrastructure investments in redevelopment areas. As redevelopment occurs in CRL areas, the resulting increased property tax revenue, which includes both the municipal and provincial components, is dedicated to pay for CRL expenditures.
- The program is designed to promote private development and create vibrant, accessible and sustainable communities.
- Within each CRL area, a baseline property assessment is established in the year that the Plan is approved. Within CRL areas, increases in property tax revenue (both municipal and provincial) that result from new development and increases in property values above the established baseline, are dedicated to funding projects or investments within the CRL area.
- The levy is not an additional tax on property owners. Properties within CRL areas pay the same property taxes as they would if they were not in a CRL area.
- Administration updates its revenue projections for the 20-year span of each CRL on an annual basis.
- The COVID-19 pandemic has impacted each CRL but in unique ways. The Belvedere CRL revenue projection has improved from the previous forecast. The Downtown CRL revenue

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projection is stable when compared to last year with a small increase attributable to the inclusion of the Station Lands development. The Quarters CRL revenue projection has deteriorated over the last year.

- Three projection scenarios are provided for the Capital City Downtown CRL. The Medium scenario includes an increase of \$11 million to \$764 million from a year ago, although this is offset by increased borrowing costs.
- The projection for the Quarters CRL has been reduced by \$25 million from a year ago to \$131 million, due to assessment decreases and realigning expectations for future development with current economic realities.
- The projection for the Belvedere CRL tax levy revenue has increased by \$4 million to \$30.1 million, due to improved valuations for residential rental developments.

REPORT

The Community Revitalization Levy Plans approved by City Council and the Government of Alberta provide a sustainable funding source for public infrastructure investments needed to attract private development to the revitalization areas.

Capital City Downtown

The Capital City Downtown Community Revitalization Levy was approved in 2014 and commenced in 2015. By the end of 2021, the construction of Rogers Place and other downtown catalyst projects have spurred more than \$4.5 billion in new development that is complete or under construction. The Levy revenues that will be generated from this new development partly fund Rogers Place and its associated infrastructure, Alex Decoteau Park, acquisition of land for a new park in the Warehouse Campus area, new upgraded drainage servicing and the Jasper Avenue New Vision project. The Levy revenues are also approved to fund construction of the new park in the Warehouse Campus area, Green and Walkable streetscape improvements, renovations to Centennial Plaza and a pedestrian bridge across McDougall Hill.

In 2021, City Council approved Bylaw 19820 to amend the Capital City Downtown Community Revitalization Levy Bylaw. Changes to the plan included adding the 103A Avenue Pedway as a Catalyst Project, and minor clarifications and adjustments to the scope of several other projects. The Bylaw was approved by the Province on January 26, 2022.

The Quarters Downtown

The Quarters Downtown Community Revitalization Levy was approved in 2011 and commenced in 2012. To date, the Levy has funded \$97 million in public infrastructure improvements for catalyst projects such as The Armature, upgraded drainage servicing, Kinistinaw Park and the adaptive reuse of City-owned buildings into new art spaces. These investments have attracted over \$800 million of completed, in-progress and planned private developments.

Belvedere

The Belvedere Community Revitalization Levy was approved in 2012 and commenced in 2013. Construction of Station Pointe infrastructure improvements, including streetscapes, plazas and

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the CN safety wall, were completed in 2015. To date, land sales and development have progressed more slowly than anticipated. In 2020, Council approved changes to the land use regulations in order to facilitate land sales and development.

Attachment 1 provides a brief update on the status of each of the capital projects funded by the CRLs.

Funding/Revenue Availability

There is a timing difference between project expenses and Community Revitalization Levy revenue generation. In each of the three levy areas debt was used to finance projects. Debt servicing expenses associated with capital investment began immediately, before there was sufficient revenue generated to fully cover those costs. These annual shortfalls have resulted in a negative reserve position for each of the three Levies. These reserves will be repaid when annual Levy revenues start to exceed annual expenditures.

For example, the Capital City Downtown Levy has seen its annual revenues exceed its annual expenses from 2019 to 2021. As a result the Capital City Downtown reserve deficit has been reduced by more than \$9 million over that period.

If the Community Revitalization Levies progress as planned for the Downtown and as reserves are fully repaid, a positive reserve balance will accumulate. At this point, instead of borrowing, Council would have the option to fund catalyst projects in the Downtown Community Revitalization Levy Area with the excess of the revenue over expenses that is accumulating in the reserve. Administration will only bring forward future catalyst projects for capital budget approval if there is sufficient financial capacity and the project is included in the Downtown Community Revitalization Levy Plan.

Revenue Scenarios

Community Revitalization Levy revenue is primarily a function of three factors:

- New development that occurs
- Increases in assessed value of existing properties within the levy areas over the base years, and
- Mill rates.

The Belvedere Community Revitalization Levy Plan includes revenue from land sales in addition to CRL revenue.

Each Edmonton Community Revitalization Levy can span up to 20 years from the date of commencement: Capital City Downtown (January 1, 2015 - December 31, 2034), The Quarters Downtown (January 1, 2012 - December 31, 2031) and Belvedere (January 1, 2013 - December 31, 2032).

Revenue scenarios for the three Community Revitalization Levies have been updated to reflect Edmonton's current economic situation. Administration will continue to adjust the long-term

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assumptions for market value growth based on new market information on an annual basis. Administration takes a conservative approach in setting assumptions.

One revenue scenario is prepared for the Quarters and Belvedere Levies, while three revenue scenarios (High, Medium, and Low) are prepared for the Capital City Downtown Levy. This is because the Capital City Downtown Levy has a wider range of potential outcomes since a larger proportion of its revenue comes from commercial properties, which often demonstrate greater volatility in assessed values.

Capital City Downtown

The pace and volume of development underway within the Levy area significantly exceeds what was anticipated when the plan was prepared in 2013. However, this has been offset in part by a decline in office property valuations, and a sharp decline in retail and hotel valuations resulting from the COVID-19 pandemic.

Continued investment in CRL Catalyst Projects like the Warehouse Park will support the Downtown's recovery from the COVID-19 pandemic and encourage further redevelopment. These capital investments are further supplemented by a range of programs like the Downtown Vibrancy Strategy, and the 2021 Economic Recovery Construction Grant.

The current projections for the Levy in the medium scenario have increased by \$11 million from a year ago to \$764 million. This is driven by additional development activity, counteracted by ongoing declines in commercial properties resulting from the COVID-19 pandemic.

The high revenue scenario generates sufficient funding to complete all funded (approved) and unfunded (planned but not yet approved) catalyst projects included in the Community Revitalization Levy plan. The medium scenario generates sufficient funding to complete most of the catalyst projects included in the Community Revitalization Levy plan.

In these scenarios, if the remaining unfunded catalyst projects do not proceed, and when the CRL reserve accumulates a positive balance sufficient to cover all remaining debt obligations, then the CRL may be terminated early. The municipal property taxes would then go into the general tax pool and the provincial property taxes would go to the Province.

The low scenario projection does not currently generate sufficient revenue to cover all funded catalyst projects, although ongoing municipal tax revenues would retire the remaining debt in 2035, one year after the CRL ends.

Administration will continue to monitor revenues and will adjust the implementation schedule of future catalyst projects as required. Administration will only recommend funding unfunded catalyst projects in future capital budgets once projected revenues are sufficient to cover the capital and debt-servicing costs.

In addition to updating the low, medium and high scenarios, a "stress test" scenario has been prepared. The stress test scenario assumes no further development other than the projects currently under construction and that assessed values will decline sharply and recover slowly. While this scenario is highly unlikely, it would result in a shortfall of \$81 million at the end of the

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CRL period. Ongoing municipal tax revenues would retire all debt by 2036, two years after the CRL ends.

Further detail about the financial projections is available in Attachment 2.

The Quarters Downtown

Administration has prepared a revenue scenario for the Quarters Downtown. The revenue projection has decreased from the previous year, due to decreases in assessed values, and adjustments to anticipated future development based on current market conditions. This results in a projected decrease of \$25 million for a total of \$131 million over the 20-year levy period. This projection indicates that revenues from the Community Revitalization Levy will not be sufficient to cover all outstanding principal and interest costs of all Quarters catalyst projects approved to date before the 2031 expiry of the Levy. The shortfall is projected to be \$15.5 million. Ongoing municipal tax revenues that continue beyond 2031 would retire the remaining debt by 2033, two years after the CRL ends.

In addition to updating the scenario for The Quarters Downtown, a “stress test” scenario has been prepared, with similar assumptions to the Capital City Downtown Levy. While this stress test scenario is unlikely, the increase in municipal taxes will continue beyond 2031 and would generate enough revenue to repay all outstanding principal and interest charges by 2044.

Further detail about the financial projections is available in Attachment 3.

Belvedere

Administration has prepared a revenue scenario for Belvedere. Development in the area has not progressed as anticipated in the original plan. However, in the last year, improving valuations of residential rental developments have increased Administration’s revenue expectations for the Belvedere Levy by \$4.0 million to \$30.1 million. The projections indicate revenues from the Community Revitalization Levy and land sales will not be sufficient to cover all outstanding principal and interest charges before the 2032 expiry of the Levy. The shortfall is projected to be \$8.1 million. Ongoing municipal tax revenues that continue beyond 2032 would retire the remaining debt by 2036.

A “stress test” scenario was also prepared for Belvedere. In this stress test scenario, the increase in municipal taxes will continue beyond 2032 and would generate enough revenue to repay all outstanding principal and interest charges by 2039.

Further detail is available in Attachment 4.

Budget/Financial Implications

Capital profiles or service packages for unfunded Community Revitalization Levy projects in The Quarters Downtown and Capital City Downtown Plans will only be brought forward for Council consideration as part of future capital budgets if Community Revitalization Levy revenues are sufficient.

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Legal Implications

A Community Revitalization Levy Bylaw is terminated at the earliest of the following: the end of 20 years (from the year in which the Bylaw was approved by the Province); the date that all borrowings for the Community Revitalization Levy area are repaid or recovered from the revenues; or an earlier date specified by the Province.

On August 31, 2021, City Council approved Bylaw 19820, which amends the Capital City Downtown CRL Plan. The Bylaw was approved by the Province on January 26, 2022.

COMMUNITY INSIGHT

Each project funded by the Community Revitalization Levies seeks community insight as an essential part of project development, including engagement with impacted and marginalized communities. Further details on engagement activities undertaken and planned for each project are available in Attachment 1.

As this report provides quantitative financial results and projections related to these projects, additional community insight is not gathered for this report.

GBA+

The set of projects eligible for CRL funding in each CRL was established prior to the City's adoption of GBA+. Since being adopted, GBA+ considerations have informed the design and development of each project funded by the Community Revitalization Levies so that the projects are increasingly inclusive and accessible. For example, this has included designing sidewalks to be more accessible to those with disabilities, prioritizing child-friendly design and coordinating with a nearby child care facility in Centennial Plaza, or coordinating sidewalk improvements with affordable and supportive housing providers.

ATTACHMENTS

1. Community Revitalization Levy Capital Projects Update
2. Capital City Downtown Community Revitalization Levy - Financial Projections
3. The Quarters Downtown Community Revitalization Levy - Financial Projections
4. Belvedere Community Revitalization Levy - Financial Projections