COUNCIL REPORT

Edmonton

ADDITIONAL SUPPORT FOR INDUSTRIAL DEVELOPMENT - FULTON CREEK BUSINESS PARK

RECOMMENDATION

That Executive Committee recommend to City Council:

That revised Council Policy C592A - Industrial Infrastructure Cost Sharing Program, as outlined in Attachment 4 of the February 15, 2023, Urban Planning and Economy report UPE01473, be approved to allow future, eligible, industrial developers to recover 100 per cent of the tax uplift for over-expenditure costs.

Requested Council Action		Decision Required	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**Regional Prosperity**	
City Plan Values	ACCESS		
City Plan Big City Move(s)	Catalyze and Converge	**Relationship to Council's Strategic Priorities**	Economic Growth
Corporate Business Plan	Serving Edmontonians		
Council Policy, Program or Project Relationships	• C592 - Industrial Infrastructure Cost Sharing Program • Edmonton Economic Action Plan		
Related Council Discussions	• CR_4414, Industrial Infrastructure Cost Sharing Program, Executive Committee, June 20, 2017		

Previous Council/Committee Action

At the August 29, 2022, City Council meeting, the following motion passed:

That Administration provide a report that outlines:

1. the opportunities and tradeoffs for providing up to 100% of the Incremental Tax Revenue to go towards the over expenditures as defined in City Policy C592 - Industrial Infrastructure Cost

Sharing Program for over- expenditures for Fulton Creek Business Park at 6010 30th St. N.W. in Edmonton; and

2. any potential adjustments to City Policy C592 - Industrial Infrastructure Cost Sharing Program and an engagement process to provide additional support for industrial development.

Executive Summary

- Recovery of over-expenditure costs for major infrastructure by industrial developers can be unpredictable and can drastically reduce the feasibility of projects.
- City Policy C592 - Industrial Infrastructure Cost Sharing Program helps mitigate the financial risk of over-expenditures to developers through development levies and incremental tax revenue. Incremental tax revenue from the newly constructed property, that would otherwise support the general tax base, is redirected to instead finance the developer's infrastructure construction costs.
- Currently, Policy C592 helps developers recover front-end over-expenditure costs by providing up to 50 per cent of the City's new annual yearly tax revenue (tax uplift). This provides predictable cost recovery for industrial developers, encourages faster, high value land development and can result in faster payback for the developer.
- Administration is recommending amendments to Policy C592 to increase the cost recovery from tax uplift from 50 to 100 per cent. This is in response to a developer who requested an exception to the Policy and it also presents the equitable option of updating Policy C592 to allow for the same exception for all future qualifying industrial development.
- A decision to provide 100 per cent of the tax uplift to industrial developers for over-expenditure costs must consider the need to defer the tax uplift in the short term (with a portion repaid to the City by subsequent developers), that would otherwise fund other tax-supported operations, to potentially achieve higher taxation revenues over time through increased industrial development and incentivize faster development, depending upon a variety of market factors.
- Taking on the additional risk of increased deferred tax revenue is based on the anticipation the incentive will spur additional investment, providing more tax revenue over the long term.
- The associated administrative Procedure supporting the revised Council Policy will be amended and shared with City Council upon approval by the City Manager.

REPORT

Current State

Nearly all industrial development in Edmonton is enabled through a system of development levies, which spread the cost of major infrastructure such as trunk sewers and arterial roads among benefiting landowners. Typically, front-end developers in an area construct oversized infrastructure to accommodate future development of the entire area. Front-end developers can recover their additional costs (over-expenditures) through development levies paid by subsequent developers, as other benefiting lands are developed.

ADDITIONAL SUPPORT FOR INDUSTRIAL DEVELOPMENT - FULTON CREEK BUSINESS PARK

Due to the unique nature of industrial development in Edmonton, recovery of over-expenditure costs can be unpredictable. It can take years, or even decades, for front-end developers to receive full reimbursement, which can drastically reduce the feasibility of many projects. Subsequent developers can also be burdened by development levies and over-expenditures for which they may not have budgeted. City Policy C592 - Industrial Infrastructure Cost Sharing Program (Attachment 1), approved in 2017, is intended to assist developers when development in the area is slow and is a hybrid between development levies and tax uplift financing to help address these issues. It also allows the City to incentivize industrial development without incurring additional debt.

Currently, Policy C592 provides up to 50 per cent of the City's new annual tax revenue (tax uplift) from that project payable towards the front-end developers' over-expenditure costs. Tax uplift is the difference between the pre-development and post-development tax revenue directly resulting from the developer's construction. This provides predictable cost recovery for the developer and increases the financial feasibility of the project. It encourages faster, higher value land development, as higher growth in property assessment and tax revenue will result in faster payback for the developer.

Since the inception of the Industrial Infrastructure Cost Sharing Program in 2017, six industrial development projects (four private and two City owned projects) have proceeded under the terms of Policy C592. The City owned projects are on City land and therefore do not pay taxes. This may change once the developed properties are sold. Of the remaining four projects, tax data is only available for three, as one project was completed in 2022. The total pre-development tax for the three projects with available tax data was $371,019 and the total tax uplift for the three projects is $1,770,329. As per Policy C592, $885,164 (50 per cent of the incremental tax uplift) has been redirected to the developers to help cover the over-expenditure costs.

The total, developer recoverable, over-expenditures for all the projects is $16,260,442 (averaging roughly $2,710,000 per project). The developers for three of the projects are in a position to recover over-expenditure costs and have thus far recovered $1,489,572 (approximately 9.2 per cent of the total amount) from uplift tax revenues. The details of these developments are shown in Attachment 2. The unpredictable and long timelines for industrial development is underscored by the fact that total developer cost recovery thus far has been minimal. Fulsome analysis of the effectiveness of the Industrial Infrastructure Cost Sharing Program is difficult, given the low number of industrial projects that have incurred over-expenditures, low cost recoveries to date, and the length of time the program has been active.

Issues

Industrial absorption rates over the last five years have averaged 42 hectares per year, which is significantly lower than the 10 years previous. This decline is due to a number of factors, including changes in economic and market conditions and increased global and regional competition. Residential growth has outpaced non-residential growth over this time, placing a higher burden on the residential tax base to fund City priorities. Stimulating industrial growth can mitigate this challenge.

The Fulton Creek Business Park in southeast Edmonton is being redeveloped; the 60-hectare parcel (shown in Attachment 3) is currently used as a pipe yard and current annual municipal tax revenue is $636,595. A developer with significant plans for development on the site has requested an exception to Policy C592 to recover 100 per cent (rather than 50 per cent) of the tax uplift to cover their over-expenditures. For this specific project, eligible over-expenditure costs are estimated by Administration at approximately $15,000,000, which is much higher than the amount of over-expenditure of any industrial project since Policy C592 was first put in place.

Solutions

Option 1: Status Quo - 50 Per Cent Reimbursement as per current policy

No new additional support provided to the developer and no additional cost to the City.

Option 2a: 100 Per Cent Reimbursement for Fulton Creek Project Only

Grant a one-time exception to the Policy for this project to increase the uplift payments from 50 per cent to 100 per cent. The City would defer 100 per cent of the tax uplift revenue during the period the Fulton Creek developer is recovering their over-expenditure. The City would collect up to 75 per cent of this amount back from future developers. The remaining amount of 25 per cent remains as the City's payment towards the oversized infrastructure and reduces the amount payable by future developers through levies. There is an increased possibility that because developer risk is reduced under this option, subsequent developments will occur sooner. With quicker subsequent development, the Fulton Creek developer would recover their over-expenditure sooner, resulting in the tax uplift generated from the development returning to general revenues to support all tax-supported operations sooner as well.

Recommended Option 2b: 100 Per Cent Reimbursement - Change the Policy for All Future Agreements - Recommended

The City would allow for 100 per cent of the tax uplift to go towards over-expenditures for this project and all future industrial development projects with over-expenditures, based on the amended Policy (Attachment 4). The tradeoffs mentioned for Option 2a would also apply. It is expected that this option could encourage new developments to develop sooner across Edmonton and grow the industrial tax base.

The benefits and tradeoffs of each scenario are outlined in Attachment 5.

With the understanding that providing 100 per cent of the tax uplift to pay back over-expenditures is a greater incentive to developers, this path has the potential to incentivize more high-value industrial development leading to increased revenue. Given this, Administration recommends Council approve the amended Policy that increases the reimbursement for future developments, including the Fulton Creek project, on a go forward basis, to 100 per cent (as identified in Option 2b above).

A change in the Policy also means that the City must be willing to take on some increased risk and defer more tax uplift in the short term to potentially achieve higher revenues in the long term and incentivize faster development.

Budget/Financial Implications

The financial implications of the options are outlined in the options above. Market factors including interest rates, regional competition, timing of regulatory approvals and market demand all impact the pace and profitability of industrial development, and it is difficult to predict and guarantee whether financial support through changes to this policy will create or advance new development opportunities as anticipated. Based on this, it is difficult to provide forecasts on tax uplift amounts, future developments and related industrial taxation revenues. Moving from 50 to 100 per cent transfers additional risk to the City of Edmonton. However, paying 100 per cent of the over-expenditure will result in future tax uplift being dedicated to the over-expenditure (rather than the City's general revenue) and will result in an increase in budgeted expenditures in the years the contribution is offered. Once the contribution is made, the City will carry the over-expenditure and will recover 75 per cent of the over-expenditure from future developments over time. The ultimate collection of over-expenditures includes interest.

Administration is recommending this Policy amendment to reduce developer risk and incentivize increased industrial development with the intent that this will lead to an increase in taxation revenue in the long term. Administration will monitor the effectiveness of this program to ensure it is achieving the intended outcome.

Legal Implications

City Policy C592 was approved by City Council and therefore the same approval is also required if Council wishes to amend or create an exemption to the Policy. If City Council adopts the amendments, the associated administrative Procedure supporting the amended Council Policy should also be amended and then approved by the City Manager.

COMMUNITY INSIGHT

Industry groups and developers face significant financial barriers to investment due to the high cost of infrastructure investment. Collaboration with city-building partners and the developers of the Fulton Creek project has highlighted gaps in the current Policy that should be explored to encourage investment in this and other projects.

Industry groups have suggested that while the Fulton Creek project could benefit from an exemption, an amended policy from which all developers could benefit could drive investment in industrial lands across the city.

GBA+

Decisions to support an individual developer must consider tradeoffs in the larger context of the development industry and other City priorities. In a resource constrained environment, individual developer support, as contemplated in one of the options in this report, must be weighed against equitable support for other industrial developers and other urgent City needs.

The work that will occur in 2023 to refresh the City's strategy for industrial investment and development will include additional GBA+ evaluation.

ATTACHMENTS

1. City Policy C592 -- Industrial Infrastructure Cost Sharing Program
2. Summary of Industrial Agreements Executed since Policy C592 was Approved by City Council
3. Maple Ridge Industrial Area Map with Vacant and Underutilized Lands
4. Draft Revised Council Policy C592A - Industrial Infrastructure Cost Sharing
5. Benefits and Tradeoffs of 50 Per Cent Versus 100 Per Cent Tax Uplift Rebate