COUNCIL REPORT

2023 COMMUNITY REVITALIZATION LEVY UPDATE

Downtown, The Quarters Downtown, Belvedere

RECOMMENDATION

1. That the March 22, 2023, Urban Planning and Economy report UPE01583, be received for information.
2. That Attachment 5 of the March 22, 2023, Urban Planning and Economy report UPE01583 remain private pursuant to sections 25 (disclosure harmful to economic and other interests of a public body) and 27 (privileged information) of the *Freedom of Information and Protection of Privacy Act*.

Requested Council Action		Information Only	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**Urban Places**	
City Plan Values	THRIVE		
City Plan Big City Move(s)	Catalyze and Converge	**Relationship to Council's Strategic Priorities**	15-Minute Districts Economic Growth
Corporate Business Plan	Transforming for the Future		
Council Policy, Program or Project Relationships	• Bylaw 15800 - The Quarters Downtown Community Revitalization Levy Bylaw • Bylaw 15932 - Belvedere Community Revitalization Levy Bylaw • Bylaw 16521 - City of Edmonton Capital City Downtown Community Revitalization Levy Bylaw		
Related Council Discussions	• UPE01132, Options for Unfunded Capital City Downtown Community Revitalization Levy (CRL) Catalyst Projects, Executive Committee, March 22, 2023 • FCS01574, 2022 Affordable Housing Sites - Sale of Land Below Market Value and Grant Funding, Executive Committee, March 1, 2023		

Executive Summary

- The City of Edmonton uses the *Municipal Government Act* financing tool the Community Revitalization Levy (CRL) in three areas (Capital City Downtown, The Quarters Downtown and Belvedere) to fund City investment in catalyst projects.
- The program is designed to promote private development and create vibrant, accessible and sustainable communities.
- Administration updates its revenue projections for the 20-year span of each CRL on an annual basis.
- Three revenue projection scenarios are provided for the Capital City Downtown CRL. The medium scenario includes an increase of $18 million to $782 million from a year ago, although this is offset by increased borrowing costs. A surplus of $42 million is projected over the 20-year CRL term, which may be applied to other CRL-eligible projects, including a Downtown Incentive Program. However this is not sufficient to fund all remaining CRL-eligible projects.
- The revenue projection for the Quarters CRL has increased by $1 million from a year ago to $133 million. A shortfall of $24.3 million is projected over the 20-year CRL term. Ongoing municipal tax revenues would cover this shortfall by 2033.
- The revenue projection for the Belvedere CRL tax levy revenue has increased by $2.1 million to $32.2 million, although this is offset by land sales generating less revenue than expected. A shortfall of $11.8 million is projected over the 20-year CRL term. Ongoing municipal tax revenues in the area would cover this shortfall by 2036.

REPORT

The Community Revitalization Levy (CRL) Plans approved by City Council and the Government of Alberta provide a sustainable financing mechanism for public infrastructure investments needed to attract private development to the revitalization areas. A CRL is a provincially legislated financing tool that provides up to 20 years of stable funding for public infrastructure investments in the approved redevelopment areas. Within each CRL area, a baseline property assessment is established in the year that the Plan is approved. Subsequent increases in property tax revenue above the baseline (both municipal and equivalent provincial school taxes) that result from new development and property value growth make up the CRL levy. The CRL funds are dedicated to CRL Plan projects within the CRL area. Only projects identified within each CRL plan are eligible to be funded by the CRL.

Capital City Downtown

The Capital City Downtown CRL was approved in 2014 and commenced in 2015. By the end of 2022, the CRL has funded $391 million in infrastructure improvements including the construction of Rogers Place and other downtown catalyst projects. This has 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 Warehouse Park, Green and Walkable streetscape improvements, renovations to Centennial Plaza, renovations to Beaver Hills House/Michael Phair Parks, Harbin Gate, the 103A Avenue Pedway and a contribution to publicly-accessible private amenity spaces associated with the Station Lands development.

The Quarters Downtown

The Quarters Downtown CRL was approved in 2011 and commenced in 2012. To date, the Levy has funded $104 million in public infrastructure improvements for catalyst projects such as The Armature, upgraded drainage servicing, Kinistinâw 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 CRL was approved in 2012 and commenced in 2013. Construction of Station Pointe infrastructure improvements, including streetscapes, plazas and the CN safety wall, were completed in 2015, at a total of $29.6 million. To date, land sales and development have progressed more slowly than anticipated. Approximately $55 million in new development has taken place within the Belvedere CRL area. In 2020, Council approved changes to the Zoning Bylaw 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 CRL revenue generation. In each of the three levy areas, debt was used to finance City owned 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. As an example, the Capital City Downtown Levy has seen its annual revenues exceed its annual expenses from 2019 to 2022. As a result the Capital City Downtown reserve deficit has been reduced by $14 million over that period.

If the CRL progresses 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 CRL Area with the excess of the revenue over expenses that is accumulating in the CRL 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 CRL Plan. This subject will be further explored in the upcoming report UPE01132 Options for Unfunded Capital City Downtown Community Revitalization Levy (CRL) Catalyst Projects, scheduled for Executive Committee March 22, 2023.

Revenue Scenarios

CRL 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 (tax rates)

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

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

Revenue scenarios for the three CRLs have been updated to reflect Edmonton's current economic situation. Administration will continue to adjust the long-term assumptions for market value growth based on new market information on an annual basis. Administration takes a conservative approach in setting assumptions.

One conservative (Low) revenue scenario has been 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 - Financial Projections

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 assessments, and a sharp decline in retail and hotel assessments 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 modestly by $18 million from a year ago to $782 million. This is primarily a function of the approved tax rate increases in the 2023-2026 budget, balanced by weakness in the assessments of some property classes.

The high revenue scenario generates sufficient funding to complete all funded (approved) and unfunded (planned but not yet approved) catalyst projects included in the CRL Plan. The medium scenario generates sufficient funding to complete most of the catalyst projects included in the CRL 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 above the baseline would then go into general revenue and the equivalent school taxes would revert back to the Province as the assessments and corresponding taxes from the CRL area go back into the equalization formula for calculating provincial property tax rates.

The low scenario projection does not currently generate sufficient revenue to cover all funded catalyst projects, as a result ongoing municipal tax revenues would be required to 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 $73 million at the end of the 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.

Capital City Downtown - Options for Future Projects

The remaining unfunded projects identified in the Capital City Downtown CRL Plan are:

- 100 Street Pedestrian Bridge (River Valley Promenades) - Delivery (Project Development and Delivery Model Checkpoint 3 to 5)
- Jasper Avenue New Vision (102 Street to 109 Street) - Delivery (Project Development and Delivery Model Checkpoint 3 to 5)
- Green and Walkable Downtown
    - Pedestrian and cyclist-friendly improvements to streetscapes and open spaces throughout the CRL area that are not yet upgraded.
- Downtown Stormwater Drainage Servicing
    - Construction of additional infrastructure is subject to servicing needs.
- Downtown Incentive Program (further detail below)
- Edmonton Downtown Academic and Cultural Centre
    - Project has been suspended by the proponent. Much of the original scope is being delivered through the CRL-funded Station Lands projects.

As the 2023-2026 Capital Budget was just recently approved, Administration does not recommend advancing the above projects at this time.

Capital City Downtown - Residential Incentive Grant

During the 2023-2026 budget deliberations, Council requested that Administration provide information on the opportunities and implications of using available funds in the Downtown Community Revitalization Levy for a residential development incentive. Growth of the Downtown residential population is identified in the Capital City Downtown Plan and Downtown Vibrancy Strategy as a critical component of a thriving Downtown. Many of the Catalyst Projects are intended to increase residential demand in the Downtown. For example, the Warehouse Park will provide a high-quality, family-friendly park amenity in an underserved area of Downtown with numerous sites suitable for redevelopment. Since its location was announced, more than 2000 units have been proposed adjacent to the park, with the first project already under construction.

One of the unfunded Catalyst Projects within the Capital City Downtown Plan is the "Downtown Incentive Program." This allows CRL funding to be applied toward an incentive grant program. The program is intended to allow for flexibility that could incentivize a variety of building forms, uses, or housing types based on market conditions or identified need. It could include new builds or conversions. For instance, Bylaw 15200 - Capital City Downtown Plan proposed a "Central Warehouse Housing Incentive Program" which would offer a per-unit grant for new developments in the Central Warehouse area that are built to high quality design standards and include 10 per cent of units with more than two bedrooms.

An incentive program can be designed in different ways to suit market conditions and desired outcomes. A program that prioritizes excellence in environmental performance may have different criteria than one prioritizing affordability, or short-term job creation. The design of an effective incentive program should consider a number of factors, including:

- Market conditions
- Program boundary
- City Plan objectives (including social, economic, and environmental objectives)
- Stakeholder input
- Ease of administration (i.e. red tape and resources required)
- Coordination with other incentive programs
- Equity and fairness

One constraint on a CRL-funded incentive program is that it would be restricted within the boundary of the Capital City Downtown CRL, which does not align with any other neighbourhood or planning boundary. A residential incentive program that extends to the boundaries of the Downtown neighbourhood, the Centre City primary node, or the Central District which would require an alternate funding source for areas outside the Downtown CRL.

Incentive programs are intended to influence the development market to provide a product in a location more than would occur in the absence of an incentive. In this way, incentive programs can be a tool to achieve The City Plan's outcomes by encouraging development of a particular type of development in a particular location. However, incentive programs can also have other effects on the market, which could include diverting investment from other areas. For instance, a Downtown CRL incentive program might attract investment to the CRL Area that might have otherwise occurred elsewhere in the Central District without an incentive.

The financial impact of a Downtown Incentive Program depends significantly on the design of the grant program. An incentive program could not be funded by borrowing. From 2023 to 2027, Downtown CRL annual expenses are projected to exceed annual revenues. Therefore, a grant structured as an up-front payment would effectively be a direct draw on the CRL reserve, resulting in deeper reserve deficits. A grant program structured as a rebate equivalent to the incremental tax increase (like the 2021 Economic Recovery Construction Grant) would not directly draw on the reserve, but the risk would be that this commits future CRL revenue for a number of years, delaying repayment of the CRL reserve.

The financial projections for the CRL assume that additional development will take place over the remainder of the CRL. To the extent that City-provided incentives prompt additional development that would not otherwise occur, it is possible that an incentive grant program would have a net positive impact on CRL finances over the remaining period. However, it is difficult to demonstrate how incentive programs directly affect development outcomes. Where existing demand is robust, incentives may be unnecessary, and where demand is weak, it is difficult to incentivize development if market conditions would not sustain financial viability of an investment in the long run.

To develop a residential incentive program for the Downtown CRL, Administration would require direction from City Council to assess the market and draft program criteria that best addresses market conditions. As part of that motion, City Council could identify if there are specific program goals that would complement the prime objective of developing new residential units (e.g. affordable housing, office conversions, environmental performance). If directed to do so, Administration would undertake stakeholder engagement, conduct a market analysis including supply/demand forecasts, estimate the impact on CRL finances and any implications on its ability to fund other projects, and recommend a program policy and budget to Council for approval.

The Quarters Downtown - Financial Projections

Administration has prepared a revenue scenario for the Quarters Downtown. The revenue projection is largely stable compared to last year, with a projected increase of $1 million for a total of $133 million over the 20 year levy period. This projection indicates that revenues from the CRL 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 $24.3 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 2042, up to 11 years after the CRL ends.

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

The Quarters Downtown - Options for Future Projects

There continues to be development interest in The Quarters CRL area; a development permit has been issued for the next phase of the Stadium Yards project (229 units) and two rezoning applications are in process. These developments are all located at the northeast corner of the

CRL area, close to Stadium LRT Station. There has been less recent investment in The Quarters area itself (92 Street-97 Street), and there are no current applications.

The Quarters CRL Plan includes scope for streetscaping, water and drainage improvements, land acquisition, environmental remediation, utility work, and infrastructure requirements associated with new development.

At this stage of The Quarters redevelopment, the condition of City infrastructure is not likely limiting investment interest. Demand for new residential and commercial space in the area is relatively weak. As Administration projects that CRL revenue will fall short of expenses, there is effectively no more CRL funds to spend, unless significantly more development occurs or market values increase sharply.

An exception to this could be funding support for infrastructure requirements associated with new development, like drainage or sidewalk requirements. Where capital expenditure can be shown to facilitate or accelerate new development, it may be neutral or positive to CRL finances on a case-by-case basis.

Given the financial constraints, Administration did not recommend any new capital projects for the 2023-26 budget cycle. However, Administration continues to pursue other avenues to attract investment to The Quarters:

- Engage property owners, industry stakeholders and community stakeholders to identify barriers to redevelopment and potential remedies.
- The City owns several parcels of vacant land in the Quarters and has made extensive efforts to market those lands for sale to a wide range of potential investors. Given the limited market interest to date, other opportunities are being explored to dispose of parcels at below market rates to affordable housing providers, in accordance with the requirements of the *Municipal Government Act*, for the purpose of stimulating new residential and commercial development.
    - At the March 1, 2023, Executive Committee meeting, Financial and Corporate Services report, FCS01574 Affordable Housing Sites- Sale of Land Below Market Value and Grant Funding, recommended the below market sale of the Koermann Block and Rowland Road properties (both located in the Quarters area) for Affordable Housing.
- Continue to leverage City-owned buildings for adaptive re-use. Explore subsidized rent for non-profit tenants which helps to bring more people to the area on a regular basis.
- Administration is evaluating the custom Direct Development Control Provision (DC1) zoning and overlay in the area and, in consultation with industry and community stakeholders, will identify opportunities to update and simplify zoning in the area.
- Continue to implement the City's affordable housing and houselessness plans and advocate for other orders of government to contribute to addressing houselessness, mental health and addictions.
- Pursue locating small-scale community amenities, recreation and leisure facilities, and regular programming in The Quarters area.

Incentive grant programs have proven helpful in attracting investment to a target area. An incentive program could be developed either specifically for The Quarters, or to more broadly target priority growth areas to the 1.25 million population milestone outlined in The City Plan. However, development incentive programs are not mentioned in The Quarters CRL Plan, so CRL funding could not be used. An alternate funding source could be identified, or the City could amend the CRL Plan (which would also require provincial approval). Such a program could not be funded by borrowing.

Belvedere - Financial Projections

Administration has prepared a revenue scenario for Belvedere. Development in the area has not progressed as anticipated in the original plan. Compared to last year, Administration's revenue expectations for the Belvedere Levy have increased modestly by $2.1 million to $32.2 million. However this increase is offset by land sales generating less revenue than projected. The projections indicate revenues from the CRL combined with 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 $11.8 million. Ongoing municipal tax revenues that continue beyond 2032 would retire the remaining reserve deficit 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 2037.

Further detail is available in Attachment 4.

Belvedere - Options for Future Projects

The Belvedere CRL was primarily intended to fund implementation of the Station Pointe project on Fort Road. Five development parcels were created and listed for sale. Demand for residential development has been less than anticipated when the Station Pointe project was initiated. To date, one parcel has been sold and 112 residential units have been constructed. Two additional parcels are expected to sell in 2023. On one of the parcels, Treaty 8 First Nations of Alberta Holdings Ltd. proposes to build 62 new affordable supportive housing units (with up to $6 million being provided by the City through the Affordable Housing Investment Grant Program). The remaining two parcels continue to be marketed for sale.

The capital projects identified in the Belvedere CRL Plan are complete. No additional projects can be paid for with CRL funding, unless the Plan were to be amended. It is unlikely that the need for City infrastructure is inhibiting private investment. Also, as Administration projects that CRL revenue will fall short of expenses, there is effectively no more CRL funds to spend, unless significantly more development occurs or market values increase sharply.

In 2021, the parcels were rezoned to standard zones in response to stakeholder feedback, to provide potential purchasers more flexibility and to better align with market conditions. Administration is receptive to working creatively with any other interested developer to support their redevelopment.

The Belvedere CRL Plan does include reference to a "Transit Oriented Development Housing Grant." As in the Downtown, it is possible that an incentive grant could be net positive to the CRL's financial position, depending on how it is structured. An incentive program could not be funded by borrowing. In 2023 and the medium term, Belvedere CRL annual expenses are projected to exceed annual revenues. Therefore, a grant structured as an up-front payment would effectively be a direct draw on the CRL reserve, resulting in deeper reserve deficits. A grant program structured as a rebate equivalent to the incremental tax increase (like the 2021 Economic Recovery Construction Grant) would not directly draw on the reserve, but would commit future CRL revenue for a number of years.

Budget/Financial Implications

Capital profiles or service packages for unfunded CRL 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 CRL revenues are sufficient.

Legal Implications

A CRL 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 CRL area are repaid or recovered from the revenues; or an earlier date specified by the Province. CRL revenue or borrowings can only be spent on approved projects in the CRL Plan and within the CRL boundary. Any amendments to a CRL Bylaw require Provincial approval after Council holds an advertised public hearing. The Provincial approval process presents a potential risk. The amendment could be rejected, or it may lead to other unintended revisions to the CRL Plan including the Province ending the CRLs earlier than the current end date. Additional private legal considerations are included in Attachment 5.

COMMUNITY INSIGHT

The City engaged more than 20 Downtown stakeholder groups in 2021 during the creation of the Downtown Vibrancy Strategy, and heard the importance of the utilization and creation of more public spaces and increasing greenery and animated park space. Engagement with Edmontonians throughout the development of The City Plan also described the need to develop infrastructure systems that support growth to two million people, and to focus on the importance that good design of public and commercial spaces has on community vibrancy. Approved projects such as Warehouse Park, Station Lands, park upgrades and Jasper Avenue New Vision serve to advance these goals.

Each individual project funded by the CRLs 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 CRLs 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, incorporating public washrooms into park design, and 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
5. PRIVATE - Downtown CRL Legal Update