COUNCIL
REPORT

MUNICIPAL DEVELOPMENT CORPORATION

RECOMMENDATION

That the April 14, 2023, Financial and Corporate Services report FCS01629, be received for information.

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	LIVE		
City Plan Big City Move(s)	A Rebuildable City	**Relationship to Council's Strategic Priorities**	15-Minute Communities
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	Land Development Service Policy C511 - Land Development Policy Policy C516B - Land Enterprise Dividend Policy		
Related Council Discussions	● From 2014 to 2017 there were eight Municipal Development Corporation focused Council Reports - See Attachment 1 ● FCS00884, Sale of Greenfield Residential/Enterprise Land Development History, December 6, 2021, City Council		

Previous Council/Committee Action

At the November 30/December 1/2/7/9/12/13/14/15/16, 2022, City Council Budget meeting, the following motion passed:

That Administration provide a report on the previous work related to the advantages and disadvantages of forming a Municipal Development Corporation, based on the following principles:

- Create a new, third party corporate entity that would develop City owned land (including residential and non-residential land), sell developed land on open market to builders and partner with other private sector companies in development opportunities;

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- The Municipal Development Corporation would include a Board of Directors appointed by Council;
- The City would be the sole Shareholder;
- All city owned land ready for development transferred to Municipal Development Corporation, including but not limited to
    - Blatchford;
    - Exhibition Lands;
    - Rossdale (recognizing that Rossdale has significant cultural Indigenous importance, and until such time that engagement with Indigenous communities is complete);
    - Enterprise Lands;
- Engagement with Indigenous communities.

Executive Summary

- Land Enterprise is currently delivering Enterprise Lands, surplus lands, Exhibition Lands, and River Crossing with funding from Land Enterprise Retained Earnings.
- Previous Municipal Development Corporation (MDC) conversations occurred from 2014 to 2017, during which time eight Council reports reflected evolving Council direction.
- Based on the previous evaluation of MDC models, Administration has determined the following broad advantages and disadvantages of the City creating an MDC. Perceived benefits and tradeoffs could change depending on Council's intent for an MDC.
- Advantages of an MDC could include:
    - More nimble due to separation from City policies and procedures;
    - Reduced risk exposure to the City;
    - Improved access to private sector resources, experience and financing;
    - Ability to undertake onsite and vertical development (i.e. construction of buildings) projects; and,
    - Potential for more diverse revenue streams.
- Disadvantages of an MDC could include:
    - Time to set up and determine a clear mandate;
    - Potentially significant start-up costs;
    - Reduced alignment with City projects, objectives and goals;
    - Reduced coordination with City departments;
    - Revenues from activities are not available to the City for other projects, initiatives or interim funding;
    - Currently, an MDC's ability to borrow would be limited;
    - A Community Revitalization Levy is not available for the projects noted in the motion; and,
    - Poorly suited to undertake the City's current land development work in Blatchford, River Crossing and Exhibition Lands due to high costs and project requirements.
- Should Council wish to further explore the value and viability of creating an MDC, Administration would require direction on the goals, objectives and outcomes to assess whether an MDC is an appropriate tool and, if so, which model would best achieve Council's intent.

REPORT

A Municipal Development Corporation (MDC) is an arm's length corporation where the City is the controlling or sole shareholder. The primary intent of an MDC is to function similarly to a private developer, positioning it to better undertake difficult projects or take advantage of creative partnerships and financing mechanisms that may not be available to the City.

Background

At the February 25, 2014, City Council meeting, Council passed a motion requesting information related to the City's Land Enterprise operations. This motion began a series of discussions with City Council that continued until June 2017 about the possibility of a City-owned MDC. In total, eight specific MDC focused Council reports were generated. A timeline and list of the relevant reports are included in Attachment 1, along with a brief summary of the previous conversations with City Council.

While the 2014 motion was broad and included many of the same large scale projects as the current motion, the recommended MDC model, as proposed at the November 26, 2015, Special Executive Committee meeting in report CR_2132, Municipal Development Corporation Start-Up Strategy, would perform a narrow range of activities on a select group of high-opportunity surplus properties (five of 44 of the City's surplus properties at that time were proposed).

At the June 20, 2017, Executive Committee meeting, as per report CR_3620, Executive Committee directed Administration to cease work on the creation of an MDC.

Creating a Third Party Entity

Most of City Council's previous consideration of an MDC focused on the creation of a third party entity, however Administration also presented information on models where the MDC would stay within the corporation. All MDC options evaluated included the City as the sole shareholder with a board of directors to be appointed by Council.

MDCs can take on a variety of potential forms, including:

- Being for-profit or not-for-profit.
- Primarily profit focused or incorporating city-building objectives into its work.
- Performing a very narrow focus of land development activities or undertaking the full range of land development activities that private land developers would.
- Developing lands independently, focus on collaboration with private industry or a combination of both.
- Undertaking horizontal (i.e., preparing the land for development, such as zoning, utilities and other supporting infrastructure) or vertical (i.e., construction of buildings) development, or both.

The type of MDC established is shaped by its mandate and intended outcomes such as profit focused or city-building objectives. The previous work illustrated that this is one of the most important considerations in the establishment of an MDC. An MDC is guided entirely by its mandate, which is set at the inception of the MDC by Council. Once set, all the work carried out by the MDC is with the objective of achieving the goals of the mandate. Changing the mandate is not recommended as it erodes the liability risk protection provided by the MDC to the City.

Engagement with Indigenous Communities

The previous analysis on an MDC did not evaluate or consider the specific role for, or potential impact of, Indigenous engagement. However, some considerations can still be taken from work that was done.

- An MDC that is profit focused benefits from being able to timely develop lands. Depending on the amount and complexity of engagement required on a project, timelines and costs for development can be greatly impacted. This may impact an MDC's ability to deliver on profit and internal rate of return targets.
- Land development projects, like all projects, benefit from diverse perspectives and experiences. One of the goals achieved through the creation of an MDC is the ability to leverage external, private sector experience to improve the delivery of land development projects. Incorporating Indigenous engagement or inclusion in an MDC would support this initiative.

Advantages and Disadvantages

Previous Analysis on Creating a Third Party Entity

Report CR_2132 presented three options for an MDC: MDC Heavy, MDC Light, and MDC Superlight. These three options are described in greater detail in Attachment 2. Each of these models would perform varying levels of land development activities on select, surplus City lands. The MDC Superlight would have the narrowest range of activities while the MDC Heavy would have the full range of land development activities, including vertical development. These variations of an MDC would carry out some of the same activities as the current in-house delivery of Surplus Lands but was not intended to fully replace it.

Attachment 2 compares the performance of the three MDC models relative to the City's current in-house, Land Enterprise delivery model. While the MDC is able to undertake some activities the current in-house model is not, there may be trade-offs, including start-up costs and loss of alignment with the City.

Development Projects

There are a number of factors that will influence an MDC's ability to successfully deliver large scale projects such as Blatchford, Rossdale, Exhibition Lands and Enterprise Lands. The most important factors include:

- The city-building objectives (as noted below) intended through the land development projects;
- Complexity arising from the expectation that there will be comprehensive and authentic opportunities for Indigenous engagement in the case of River Crossing; and
- Expenses exceeding revenue and slower sales of lots.

For all the projects below, with the exception of Exhibition Lands, the City's current involvement is limited to horizontal land development activities including site preparation, planning, design, construction and sale of fully serviced, shovel-ready lots. In Exhibition Lands, the City is creating large parcels for sale for private developers to further develop to the lot level.

Blatchford

Blatchford is a unique transformational redevelopment project. Some aspects that define the project are a focus on sustainability, carbon neutrality, high density and the renewable district energy system, corresponding to Council direction on Blatchford's vision (2010), business plan (2014), and other approvals since the project's inception. While these city-building objectives and initiatives are ambitious, the development is expected to still result in an overall positive net revenue for the project. Blatchford is three to four times denser than a traditional suburban community, which may result in a slower development pace compared to a less dense suburban community[1].

Advantages of an MDC:

- More nimble, better able to quickly adjust development plans to current market trends and demands.
- May be better able to attract private sector involvement.
- Better positioned to undertake onsite and vertical development of fully serviced lots either directly or in conjunction with the private sector.

Disadvantages of an MDC:

- Neighbourhood vision for Blatchford results in increased costs and slower revenue from sales, which impact the internal rate of return for an MDC.
- Lower rate of return and slower pace may prove to be a deterrent to attracting private sector involvement.
- Unless specifically written into the MDC's mandate, there would be a reduced ability to achieve city-building objectives and outcomes.
- Existing residents may view transfer to an MDC negatively.

Rossdale (River Crossing)

River Crossing is a community redevelopment project that would see the west Rossdale neighborhood transformed into a new community and gathering place; implementation will include significant capital investments in public spaces as well as the sale of land for redevelopment by the private sector.

Advantages of an MDC:

- May be able to attract private sector involvement for onsite and vertical development.
- Better positioned to undertake onsite and vertical development of fully serviced lots either directly or in conjunction with the private sector.

[1] The Blatchford Community vision's goal is a neighbourhood of up to 30,000 Edmontonians (blatchfordedmonton.ca/vision/) on 536 acres. A comparable suburban development is Chapelle (webdocs.edmonton.ca/infraplan/plans_in_effect/Chappelle_NASP_Consolidation.pdf), which had a population of 8,326 as of the 2019 municipal census (edmonton.ca/public-files/assets/document?path=census/2019_Census_Summary-Report_CHAPPELLE_AREA.pdf) on 579 acres.

Disadvantages of an MDC:

- Development costs are almost double anticipated revenue from lot sales, making the project unprofitable and impacting the financial viability of the MDC.
- Unprofitability will likely deter private sector investment in horizontal development.
- There are a large number of capital projects underway in River Crossing that require close coordination within Administration that would be challenging for an MDC to do.
- Unless specifically written into the MDC's mandate, there would be reduced ability to achieve city-building objectives and outcomes.

Council has directed Administration to bring a report to Executive Committee on a potential governance structure for River Crossing that includes Indigenous communities with historic ties to the area. Administration will be presenting this report on June 23, 2023. This may impact how projects within River Crossing are advanced and may positively or negatively impact an MDC's success in delivering the River Crossing development.

Enterprise Lands

Enterprise Lands includes greenfield residential and industrial properties. These projects typically have low encumbrances, modest capital investment requirements, short investment periods, high demand, high net revenue, and are able to easily include other city-building initiatives. Revenues from these projects are reinvested into future Enterprise Land work, surplus property redevelopment, Exhibition Lands redevelopment, and River Crossing redevelopment. They are also used for other initiatives, such as recently providing interim financing for 55 per cent of the Coliseum demolition.

Advantages of an MDC:

- These projects would support an MDC's financial viability.
- Potential increased private sector involvement, depending on the MDC model selected.
- Better positioned to undertake onsite and vertical development of fully serviced lots either directly or in conjunction with the private sector.

Disadvantages of an MDC:

- Potential reduced revenue and dividend payment to the City if profits are shared with the private sector.
- Interruption to dividend payment to the City while the MDC becomes self-sufficient.
- Operational costs currently funded by Land Enterprise Retained Earnings would need tax levy funding.
- Revenue from this work would no longer be available to redirect to other city-building projects such as Exhibition Lands, River Crossing, surplus lands and the Coliseum demolition and tax levy funding would be required.
- Unless specifically written into the MDC's mandate, there would be reduced ability to achieve city-building objectives and outcomes.

Exhibition Lands

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The Exhibition Lands were not part of the previous MDC reports because, at the time, it was unclear what the future of the area would be.

Site clearing and redevelopment work are anticipated to start in 2023. Studies are underway about incorporating alternative energy solutions at select locations within the site area, namely the transit villages and the civic/education/employment anchors.

Advantages of an MDC:

- May be able to attract private sector involvement.
- Better positioned to undertake onsite and vertical development of fully serviced parcels or lots either directly or in conjunction with the private sector.

Disadvantages of an MDC:

- Demolition, site preparation and collector road development costs exceed anticipated revenue from sale of parcels, making the horizontal development unprofitable and impacting the financial viability of the MDC.
- Development may be delayed as an MDC is set up.
- Unless specifically written into the MDC's mandate, there would be reduced ability to achieve city-building objectives and outcomes.

Surplus Lands

Surplus lands include any lands that are no longer required for municipal use. These may be located in infill or greenfield areas; could be residential, commercial, industrial or mixed-use; and come in all sizes and may require additional servicing, remediation or development work prior to sale. Some of these lands are profitable to develop, while others have development costs that exceed revenue.

Advantages of an MDC:

- May be able to attract private sector involvement.
- Better positioned to undertake onsite and vertical development of fully serviced parcels or lots either directly or in conjunction with the private sector.

Disadvantages of an MDC:

- Only select properties would be suitable for transfer to an MDC due to challenging site conditions or development costs.
- The City may be required to prepare lands for transfer to an MDC and would require a funding source to do so.

Current Considerations

The following are updates to previously presented information to provide current context:

- During the period that Council was exploring an MDC, Administration was also working on the City's Affordable Housing Strategy, which resulted in the creation of a non-City owned, not-for-profit known as Community Development Corporation (now the Edmonton Community Development Corporation). After City Council approval of the Edmonton Community Development Corporation in November 2016, Administration reviewed and received Executive Committee approval to transfer seven properties to the Edmonton Community Development Corporation in September 2017, valued at $10 million (+/-10 per cent).

- Some MDCs, such as the Calgary Municipal Lands Corporation, were largely funded through a Community Revitalization Levy (CRL) as opposed to land sales or other revenue streams. Edmonton has exceeded the Government of Alberta's newly imposed limit on CRLs and as such would be unable to create a new CRL (until one or more of the City's current CRLs expire) to fund the major City redevelopment projects noted above. Calgary's CMLC has since expanded into other land development activities that do not rely on a CRL.
- Initial borrowing by an MDC would likely need to be guaranteed by the City. Depending on the funding source identified by the City for the guarantee, the impacts on the City's debt servicing limit would be different. For example, if the guarantee were funded through tax-levy, then it would be considered as a part of the City's tax-supported debt servicing limit, which will be fully utilized by the end of 2027. If the funding source is non-tax levy, such as a one time allocation from a City reserve, the debt servicing impact may be considered against one of the less-constrained debt servicing limits.
- In 2020, the Surrey City Development Corporation, which informed Edmonton's potential MDC, was folded back into Surrey's municipal government.
- Presently, Land Enterprise is tasked with advancing development activities for Enterprise Lands, surplus lands, River Crossing and Exhibition Lands. Current financial modeling shows that the program is able to fund all of this work plus the 55 per cent share of the Coliseum demolition. The creation of an MDC and transfer of lands or funds to the MDC may have an impact on the ability to fund or deliver on these projects.
- Recent updates to the *Municipally Controlled Corporation Regulation* now allow Council to create a for-profit controlled corporation, without Ministerial approval, provided certain criteria are considered and approved by Council as part of a public hearing process.
- Blatchford is currently under development, with builders purchasing parcels and residents moving in. A change to the structure, or vision, would impact the progress of the development and could create a reputational risk.

Findings & Conclusions

Creation of an MDC would be likely to take several years and potentially incur significant costs at start-up as shown in Table 2 of Attachment 2. An MDC can be set up to be profit focused and incorporate City-building objectives into its activities, but this needs to be clearly defined in its initial mandate.

Based on the challenges noted above Exhibition Lands, River Crossing, and Blatchford are likely not well-suited for an MDC to undertake horizontal land development without significant borrowing or a CRL. The CRL option is currently not available, and borrowing may be restricted dependent on the structure of the MDC (see Budget/Financial Impactions section below). Transferring Enterprise Lands projects to an MDC would result in the loss of access to revenue and the overall coordination required to deliver Exhibition Lands and River Crossing.

Select surplus lands and the serviced lots created by the City's current land development projects provide an opportunity for an MDC to undertake onsite and vertical land development projects that the City is not well-suited to achieve. This would allow the City, through an MDC's mandated activities, to achieve city-building outcomes through vertical development that it is currently not able to achieve. It would potentially also allow the City to benefit from new revenue streams such as the sale or lease of vertical developments.

Potential Next Steps

To properly assess if an MDC is an appropriate vehicle to achieve Council's intended outcomes, Administration would require the following direction from Council:

- **Purpose:** MDCs are a tool created to achieve an intended outcome. MDCs can be created for revitalization of a specific area or to strategically target real estate investment in areas of intended growth.
- **Mandate:** MDCs can be profit focused, City-building focused or a combination of the two. Direction on an Edmonton MDC's focus will determine if it would be for-profit or not-for-profit, the level of resources it should dedicate to City-building objectives and what type of City-building objectives it should undertake.
- **Lands and Activities:** MDCs can undertake a wide range of land development activities from focusing on value-add activities such as rezonings to site servicing on a subdivision level to onsite and vertical development. The types of lands and projects that are to be undertaken by an MDC will often dictate the types of activities required to develop those lands.
- **Financing Mechanisms:** There are a wide variety of financing mechanisms and revenue streams available to an MDC. Financing mechanisms can include grants, loans, guarantees, land transfers, and CRLs, among others. The City is currently limited on the types and amount of financing tools it is able to provide to an MDC. Additionally, an understanding for the tolerance levels for the negative short-term financial impacts to the City would also be required. Potential long-term revenue streams can include sales revenue, lease, rentals, tax uplift, management fees, and investment revenue.
- **Structure:** Ideally MDCs should be set up as an independent entity that is separate from political influence. Typically, the municipality is the sole shareholder with its council acting as the shareholder's representative. Board members and employees owe their fiduciary responsibility to the corporation. Councillors are able to sit on the board, but the number should be minimized and the potential for conflict between responsibilities to the corporation and the municipality must be accounted for.

Budget/Financial Implications

All previous financial analyses are considered valid for the time they were created (2014-2017). Updates to that work would be required to determine if the assumptions and findings are still valid.

An MDC may require initial seed funding, transfer of lands, loans and financial support for the initial years following creation. However, per the *Municipal Government Act*, a for-profit MDC's business plan must demonstrate that it will not be financially reliant on the municipality for its ongoing operations. The costs and contributions from the City to an MDC shift depending on the type of MDC created. For instance, the MDC Superlight model that was presented in 2016 had an estimated cost for start-up and three years of operation of $22.65 million, including land transfers, after which it was anticipated to be self-reliant. However, the MDC Heavy would have required $218.57 million for the first three to four years of operation.

The City's debt servicing limits will be impacted differently based on how the MDC is established and structured. If the City exerts significant control and influence over the organization, which may include financial dependence on the City, the entity's debt would likely impact the City's debt servicing limits. In the case of an MDC, where operations are funded through non-tax levy revenues, this debt would be considered self-liquidating debt. Debt servicing forecasts based on December 2021 actuals in the March 14, 2023, Financial and Corporate Services report, FCS01696, Capital Financial Update - December 31, 2022 indicate the City is projected to use 73.7 per cent of its constrained debt servicing limit (21 per cent of City revenues) by 2027. Borrowing up to the 21 per cent limit is permitted for self-liquidating debt, self-supported tax guaranteed debt, borrowing for federal/provincial grant matching purposes, and borrowing for emergency purposes.

If the MDC is independent from the City, where its decisions cannot be significantly influenced by the City and it is not financially reliant on the City over the long-term, then the organization's borrowing would not be subject to the City's debt servicing limits. This would be similar to EPCOR's debt, which is excluded from the City's debt servicing limit calculations.

Financing guarantees that the City provides to an MDC would likely be considered as City debt in the short-term, so would be included in the debt servicing limit calculation. Debt servicing limit impacts would depend on the funding source identified by the City to guarantee the debt. For example, if the guarantee were funded through tax-levy, then it would be considered as a part of the City's tax-supported debt servicing limit, which will be fully utilized by the end of 2027. If the funding source is non-tax levy, such as a one-time allocation from a City reserve, the debt servicing impact may be considered against one of the less-constrained debt servicing limits.

The City's current delivery model is fully operational, delivering annual dividends, funding other land development projects and supporting other initiatives. Land Enterprise's work is funded entirely by Land Enterprise Retained Earnings. The Blatchford redevelopment is primarily funded with Blatchford Retained Earnings and partially through debt. The City's current land development approach does not use tax levy funding or borrowing, and relies entirely on Land Enterprise Retained Earnings or Blatchford Retained Earnings.

Legal Implications

Council is able to create a for-profit or not-for-profit Municipal Development Corporation. An MDC would be a separate legal entity from the City. This has the benefit of limiting the liability of the City arising from the MDC's activities. However, the extent of the City's risk and liability exposure changes depending on the degree of control the City exercises over the MDC. Additionally, because an MDC would be city-controlled, there are still legal obligations that it would be subject to. These include:

- Trade Agreements that require public procurement above certain thresholds; and
- The *Freedom of Information and Protection of Privacy Act*.

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While the majority of the legal advice provided in prior reports on an MDC continues to be relevant, some advice related to ministerial approval must be updated. In 2018, changes to the *Municipally Controlled Corporations Regulation* removed the need for Ministerial approval prior to creating a for-profit controlled corporation. The new process requires that the Minister be notified within 60 days of City Council passing a resolution to create a for-profit controlled corporation.

COMMUNITY INSIGHT

Previous engagement completed as part of the previous MDC conversations and other related work is summarized below:

- During conversations related to the MDC from 2014 to 2017 and the City's involvement in greenfield land development from 2018 to 2022, the land development community has consistently noted they are fundamentally opposed to the City being involved in land development activities and this work should be left to the private sector. However, recent informal conversations with the Urban Development Institute-Edmonton Metro (UDI-EM) and Infill Development in Edmonton Association (IDEA) have indicated that their position is shifting and they are now more receptive to a potential Edmonton MDC.
- There has been extensive Indigenous engagement related to the visioning of the River Crossing redevelopment over the past years, including in the creation of the River Crossing Heritage Interpretive Plan and River Crossing Business Plan, and in relation to Touch the Water Promenade. Work is also underway between the City and its Indigenous partners related to a potential governance structure that would guide work in River Crossing.
- During the previous discussions with Council on the City's involvement in greenfield land development, several small builders who purchase lands from the City indicated that they place significant value on the lots that are created and publicly sold through the Land Enterprise work. A petition with over 1,000 signatures indicated these builders had concerns if the City were to exit that line of business.
- Several external groups, such as EPCOR and the City's Joint Use Agreement partners, have expressed interest in working with the City on strategic land development projects. They have noted a preference to work with the City on these undertakings as many city-building objectives of each organization align.

GBA+

Council reports discussing creation of a MDC from 2011 to 2017 did not include GBA+ as part of their information or background work.

Equity measures currently implemented through City-operated Enterprise Land Development include:

- Small home builders are given the opportunity to grow their businesses by buying lots available from the City.
- Public/individual lot purchasers have the ability to build custom homes that meet their specific needs, as opposed to buying a typical home.
- Low income Edmontonians are able to find housing in all parts of the city.

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- More Edmontonians are able to contribute to Edmonton's climate goals by purchasing or building a home that is more sustainable and climate resilient.

The full GBA+ impacts of a new MDC would depend on the specific model and guiding principles of the entity. Given Council direction, Administration would evaluate impacts in future reports for Council's information.

ATTACHMENTS

1. Municipal Development Corporation - Timelines, Report List and Summary
2. Evaluation of Previously Presented MDC Models