

LAND DEVELOPMENT POLICY C511 - RECOMMENDED UPDATES

RECOMMENDATION

That Executive Committee recommend to City Council:

1. That City Policy C516B - Land Enterprise Dividend Policy, be repealed.
2. That revised Council Policy C511A - Land Development Policy, as set out in Attachment 1 of the April 14, 2023, Financial and Corporate Services report FCS01094, be approved, with the effective date upon approval.

Requested Council Action	Decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Healthy City, Urban Places, Regional Prosperity, Climate Resilience		
City Plan Values	BELONG. LIVE. THRIVE. ACCESS. PRESERVE.		
City Plan Big City Move(s)	A community of communities A rebuildable city Greener as we grow Catalyze and converge	Relationship to Council's Strategic Priorities	15-minute Communities Economic Growth Climate adaptation energy and energy transition
Corporate Business Plan	Serving Edmontonians		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • The City Plan • Community Energy Transition Strategy • Policy C511 - Land Development Policy • Policy C516B - Land Enterprise Dividend Policy • Land Enterprise Program 		
Related Council Discussions	<ul style="list-style-type: none"> • FCS00884, Sale of Greenfield Residential/Enterprise Land Development History, City Council, December 6, 2021 • CR_8197, Enterprise Land Development Program Update, Executive Committee, April 26, 2021 		

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- CR_7122rev, Land Governance Strategy Update - Enterprise Land Development Program Update - Additional Information, Executive Committee, February 24, 2020 / City Council, March 9, 2020
- CR_7122, Land Governance Strategy Update - Enterprise Land Development Program Update, Executive Committee, November 18, 2019
- CR_6613, Land Governance Strategy - Additional Information, City Council, March 13, 2019
- CR_5328, Land Governance Strategy, City Council, March 13, 2019

Previous Council/Committee Action

At the February 7, 2022, City Council meeting, the following motion passed:

That Administration return to the November 30, 2022, Executive Committee with a recommended update to Land Development Policy C511 to bring it into alignment with goals outlined in The City Plan, ConnectEdmonton, The Community Energy Transition Strategy and other strategies as required.

Executive Summary

- City Policy C511 - Land Development Policy, and City Policy C516B - Land Enterprise Dividend Policy, provide direction on the operations and finances of the City's Land Enterprise Program. The policies support the Land Enterprise Program as a self-sustaining enterprise while also outlining the city-building objectives that should be considered for land development activities carried out under the Land Enterprise Program.
- Administration is proposing the repeal of Policy C516B and revising Policy C511 to create revised Council Policy C511A - Land Development Policy. The intent is for revised Policy C511A to include the contents of the land enterprise dividend policy (Policy C516B) as part of its policy amendments.
- Policy C511A proposes a change in dividend calculation that is expected to increase the dividend revenue projected in the approved 2023-2026 Operating Budget, starting in 2024, based on the 2023 year-end Land Enterprise Retained Earnings balance.
- The consolidation and the proposed policy amendments will improve clarity, reflect Edmonton's current economic context, and actively support The City Plan and other City strategic priorities.

REPORT

Background

Over the last 60 years, the City's Land Enterprise Program ("the Program") has prepared and delivered residential, commercial and industrial land supply to generate revenue, expand and diversify the tax base, and achieve outcomes in alignment with city-building objectives. As Edmonton prepares to grow to a population of two million, the Program is evolving to support this growth in an affordable, climate-resilient and financially sustainable capacity.

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The Program develops and sells two different types of land from its inventory: Land that was acquired primarily for revenue generation and land originally acquired for municipal use but determined as surplus to the City's needs.

Administration actively develops those lands in developing and redeveloping areas across residential, mixed-use, commercial and industrial land uses. The Program's operating and capital budgets are entirely self-funded through Land Enterprise Retained Earnings (also known as the 'Land Fund Retained Earnings' or LERE), a constrained funding source that accumulates revenue and deficits from the Program's operation; no tax levy funding or borrowing is required. In accordance with Policy C516B - Land Enterprise Dividend, an annual dividend is paid to the corporation from LERE in Q2 of each year based on 25 per cent of the previous year's net income.

The cyclical process of reinvesting sale proceeds into future development projects has generated ongoing revenue for the City, created sustainable and inclusive developments for Edmontonians, and provided opportunities for business growth and investment.

Previous Recommendations

In 2019, Administration engaged Ernst & Young LLP ("EY") to inform a report recommending updates to Policy C511 to reflect City Council priorities and the economic climate of land development within the city. The recommendations build off previous work completed in 2019 which provided recommended themes for updates to Policy C511. This work can be found in Attachments 6 and 7 of CR_7122 Land Governance Strategy Update - Enterprise Land Development Program Update (presented to Executive Committee on November 18, 2019).

The main themes recommended within the previous body of work were:

- Balancing fiscal responsibility with supporting ConnectEdmonton;
- Operating in a transparent manner;
- A review of the policy every five years;
- Improved sustainability actions that are balanced with market demands;
- A recommendation to primarily operate in land development and only strategic participation in vertical development;
- Limitations on acquiring additional land for greenfield residential purposes;
- Supporting the City's affordable housing initiatives;
- Requiring architectural guidelines in developments; and
- Support for front ending infrastructure in industrial areas through land acquisitions and development work.

Overview of Policy Updates

Policy C511 - Land Development Policy, provides parameters for the Program's land development activities and operations, and Policy C516B outlines the Program's annual dividend payment. These policies ensure that the Program continues on a self-sustaining basis, provides a return on the City's investments and supports city-building objectives. The policies were last updated in 2004 (C511) and 2008 (C516B). They require updates to align with The City Plan, ConnectEdmonton, the Community Energy Transition Strategy and other City strategies.

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Administration is proposing consolidating both policies by repealing Policy C516B and amending Policy C511 to outline the dividend payment. Administration is also proposing amendments to align Policy C511 with Edmonton's current context and goals. The amendments include:

- a gradual shift from investment in greenfield residential to infill residential land development projects;
- clarifying the applicability of the updated Policy C511 to various land development activities (e.g., the Edmonton Exhibition Lands and the River Crossing redevelopment projects);
- providing guidance on the Program considerations beyond revenue generation; and
- updating the Program objectives to align with The City Plan and current City objectives, in particular:
 - climate resilience, energy efficiency and sustainability;
 - equitable access to a diverse range of market rate housing types;
 - supporting commercial, industrial and small business growth; and
 - innovative technologies, practices and development opportunities.

To improve transparency, beginning in 2024 Administration will provide an annual report to Council related to the work of Land Enterprise.

Proposed Policy Amendments

The amendments have been incorporated into the new, recommended version of Policy C511, Policy C511A, outlined in Attachment 1. An overview of the proposed amendments is provided below; Attachment 2 provides details and the rationale for each proposed change and connection to the previous recommendations by EY. Because of the number of changes to content and Policy C511's layout, the differences between the previous and proposed policy are presented in Attachment 2's table, in lieu of a redline version.

Program Objectives provide direction on what factors must be considered to achieve the goals of the Program, including balancing financial return and other City objectives that align with. The primary program objectives for the new policy, in addition to financial return, are supplying diverse market rate housing, sustainability (energy efficiency), innovation, small business growth and support for the City's affordable housing initiatives.

These objectives also allow the input of private sector experience and finances in new and creative ways for the City to participate in land development activities. It is hoped this will allow the City to:

- Support development that aligns with City goals in areas where it may not have land holdings; or
- Accept some level of private investment to accelerate development of City lands that are not high-priority given City resources, but still could achieve city-building objectives.

Financial Objectives outline the financial structure of the Program. They address the funding source and its permitted uses, the financial operation of the program, the self-sustaining requirement of the Program and the dividend payment that was previously outlined in Policy C516B.

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Objective 11 replaces the previous Policy C516B and provides a new calculation method for the dividend payment to the Corporation. The previous method was 25 per cent of the previous year's net income. The previous formula was vulnerable to annual fluctuations in operations, which could result in inconsistent annual dividends. For example, with the anticipated net financial losses expected for the Exhibition Lands and River Crossing redevelopments, the current method would result in several years without dividend payment.

The new proposed method is 2.5 per cent of the year-end balance of LERE for the previous year. The retained earnings balance is more reflective of the longer-term financial health of the enterprise. To protect the program's long-term viability from erosion of LERE by the dividend, a "cash floor" of \$30 million is included in the policy. If the Unappropriated Surplus Capital (i.e. the available "cash" to the program) portion of LERE drops below the floor, then a dividend will not be paid. The limit ensures there is sufficient available funds to reinvest into projects that will allow for the ongoing sustainability of LERE. The revised approach allows for a more predictable and steady dividend for the Corporation, without significantly burdening the Program.

Applicability: Objectives 12 and 13 provide explicit direction on which land development activities are applicable to the Policy.

Definitions: This section of the policy defines several terms used in the Policy.

Budget/Financial Implications

The proposed Policy changes will not impact the Land Enterprise budgets approved as a part of the 2023-2026 Operating and Capital budget process.

During the capital budget process, Council approved the demolition of the Coliseum with a budget of \$35 million funded through a combination of Pay-As-You-Go (45 per cent of the budgeted cost) and interim financing from LERE (55 per cent of the budgeted cost).

Administration was to return at the Spring 2023 Supplemental Capital Budget Adjustment with a plan to repay Land Enterprise Retained Earnings over a period not to exceed five years.

C511A's proposed change in dividend calculation methodology will change the expected dividend revenue included in the approved 2023-2026 Operating Budget, starting in 2024, based on the 2023 year-end Land Enterprise Retained Earnings balance. If Council approves C511A, the resulting Land Enterprise dividend revenue is expected to increase as follows:

- \$0.8 million in 2024
- \$3.9 million in 2025
- \$3.5 million in 2026

The dividend is currently recognized in general revenues within the Corporate Programs section of the operating budget. Administration is considering earmarking a portion of the increased dividend as part of the repayment strategy for the demolition of the Coliseum. Final changes to update the 2024-2026 dividend will be brought forward as a part of the 2023 Fall Supplemental Operating Budget Adjustment.

COMMUNITY INSIGHT

Administration carried out limited engagement with the Urban Development Institute - Edmonton Metro (“UDI-EM”), the Infill Development in Edmonton Association (“IDEA”) and the Emissions Neutral Buildings Industry Advisory Group (ENBIAG) to gather updated general industry feedback on policy amendments for C511.

- UDI-EM noted that they maintain their position that the City should not participate in greenfield residential land development. However, they stated if the City is going to participate in the sector, as directed by Council, it should engage with the development industry to understand their challenges, and assist in their resolution, where possible.
- IDEA also indicated that they maintain their position that the City should entirely shift its focus from greenfield development to infill. If the City does not completely change its focus, they indicated support for a gradual shift from greenfield residential development and new approaches to support redeveloping areas.
- ENBIAG identified a significant information gap about building energy efficient communities, particularly around costs. Its representatives stated that the City should participate in creating sustainable communities while gathering and sharing costing and other information. It also suggested that the City’s activities could provide a venue for businesses and groups to expand their knowledge, experience and practices around sustainable development.

Additionally, Administration reviewed relevant past engagement insights gathered for previous council reports and discussions, as outlined below:

- For Financial and Corporate Services report CR_8197, Enterprise Land Development Program Update, Administration engaged with:
 - Small builders that had purchased greenfield residential lots developed by the Program. Administration considered the small builders’ perspective on the importance of the Program in providing opportunities to and supporting the growth of small businesses and the value of sustainability requirements. This group also started a petition supporting the City’s continued involvement in greenfield residential land development that generated over 1,000 signatures.
 - Private industrial developers. They indicated no concerns with the City’s limited and continued involvement in the sector.
- Representatives from the UDI-ER and IDEA have also previously shared their perspectives with Administration and City Council on the City’s involvement in greenfield and infill residential land development. Both groups indicated their support for the City shifting focus from greenfield residential development to support for infill and major redevelopment projects.
- In 2019, Administration engaged Ernst & Young LLP (“EY”) to prepare a report recommending updates to Policy C511 to reflect City Council priorities and the economic climate of land development within the city. As part of this report, EY interviewed diverse private sector participants operating in the Edmonton real estate market. These findings can be found in Attachment 7 of Financial and Corporate Services report CR_7122, Land Governance Strategy

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Update - Enterprise Land Development Program Update, and generally support the policy themes recommended by EY.

GBA+

Edmontonians' access to suitable, affordable, adequate and climate-resilient housing contributes to achieving the goals and vision of The City Plan. Additionally, Edmonton's economy is strengthened when small businesses have opportunities to grow and invest. The amendments proposed in C511A clarify the Program's focus on environmental sustainability, diversity of market rate housing choices and small business growth opportunities throughout land development activities. Equity measures implemented through this policy update include:

Small home builders: Some small home builders have noted they rely on Policy C511's principle to offer a minimum of 50 per cent of residential single family lots for sale to small builders and individuals. This feedback is summarized in the December 6, 2021, Financial and Corporate Services report FCS00884, Sale of Greenfield Residential/Enterprise Land Development History. The policy amendment expands this principle to include other low-density, greenfield, residential lot products. This change allows small home builders to expand their experience with diverse housing types, build capacity and growth within their businesses and contribute to a greater diversity of housing choices overall in Edmonton with more builders able to build these types of housing.

Affordability for households: The amendments confirm the Program's commitment to providing equitable access to housing by:

- providing a diverse mix of market rate housing to suit the diverse needs of Edmontonians; and
- Supporting the City's affordable housing targets within City led developments.

Environmental sustainability: Environmental sustainability requirements for future developments could lessen the financial burden of maintaining and operating homes, especially considering the volatility of energy prices. Environmental sustainability requirements may impact small builders that may not be able to afford the additional upfront costs to meet sustainability guidelines. Administration is working to better understand the costs and associated impacts and will work with industry to ensure the sustainability requirements support The City Plan objectives while also being feasible.

ATTACHMENTS

1. Council Policy C511 (recommended amended version) - Land Development Policy
2. Policy C511 Recommended Amendments and Rationale