

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

Recommendation

1. That the March 20, 2024, Urban Planning and Economy report UPE02234, be received for information.
2. That Attachment 5 of the March 20, 2024, Urban Planning and Economy report UPE02234, 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 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	Catalyze and Converge	Relationship to Council's Strategic Priorities	15-Minute Communities Economic Growth
Corporate Business Plan	Transforming for the Future		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • November 21, 2023 Financial and Corporate Services report FCS02052 Fall 2023 Supplemental Operating Budget Adjustment - 2023-2026 Operating Budget 		

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

Executive Summary

- To fund City investment in catalyst projects in three areas (Capital City Downtown, The Quarters Downtown and Belvedere), the City of Edmonton uses a Community Revitalization Levy (CRL). A CRL is a financing tool available in the *Municipal Government Act*.
- The program is designed to promote private development and create vibrant, accessible and sustainable communities.
- Administration updates its revenue projections on an annual basis for the 20-year span of each CRL. Three revenue projection scenarios are provided for the Capital City Downtown CRL. The medium scenario includes a decrease of \$103 million from Q1 2023, to \$679 million. A shortfall of \$75.9 million is projected over the 20-year CRL term. Ongoing municipal tax revenues would cover this shortfall by 2036.
- The revenue projection for the Quarters CRL has decreased by \$23.7 million from Q1 2023, to \$109.7 million. A shortfall of \$47.9 million is projected over the 20-year CRL term. Ongoing municipal tax revenues would cover this shortfall by 2036.
- The revenue projection for the Belvedere CRL tax levy revenue has decreased by \$0.3 million from Q1 2023, to \$31.8 million. A shortfall of \$12.9 million is projected over the 20-year CRL term. Ongoing municipal tax revenues in the area would cover this shortfall by 2037.
- The Francis Winspear Centre for Music is not listed as a project in the Capital City Downtown CRL Plan, so CRL funding may not be spent towards its completion.

REPORT

The Community Revitalization Levy (CRL) plans approved by 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 revenue. 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. Attachment 1 provides an update on the status of each of the capital projects funded by the CRLs.

Capital City Downtown

The Capital City Downtown CRL was approved in 2014 and commenced in 2015. By the end of 2023, the CRL has funded \$414.6 million in infrastructure improvements, including partial funding of Rogers Place and its associated infrastructure, Alex Decoteau Park, acquisition of land for Warehouse Park, new upgrades to drainage servicing, renovations to Centennial Plaza and the Jasper Avenue New Vision project. This spurred more than \$4.5 billion in new development that is complete or under construction. In the coming years, the CRL is also approved to fund construction of the Warehouse Park, Green and Walkable streetscape improvements, renovations to Beaver Hills House/Michael Phair Parks, Harbin Gate, the 103A Avenue Pedway

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

and a contribution to publicly accessible private amenity spaces associated with the Station Lands development.

Potential Funding for the Winspear Centre Project

At the November 21-29, 2023, City Council Budget meetings, Council directed that Administration consider the implications and alternatives to using the Downtown CRL for a one-time grant to the Winspear Centre Project: Phase 3 in the amount of \$12,800,000 to help address cost escalation.

Capital funding for the Winspear Centre project is not listed as a Catalyst Project in the Downtown CRL Plan; therefore, CRL funds may not be spent towards its completion. The Edmonton Downtown Academic and Cultural Centre (Galleria) is listed in the CRL Plan, and though both the Winspear and Galleria are intended to provide cultural performance spaces, they are distinct projects in different locations, delivered by different entities. This means that the Winspear Centre project is not a current eligible capital project under the Downtown CRL.

CRL Plans may be amended to change the list of eligible projects, but Administration does not recommend pursuing an amendment for this case. Any amendment requires approval of the Government of Alberta in order to take effect. The province's current guidelines for new CRLs include a provision that projects listed in CRL plans must result in a municipally owned asset. Since the Winspear Centre is not a City asset, it would require the province to make an exception to their current guidelines.

The Downtown CRL does offer the ability to make financial contributions to Green and Walkable improvements to publicly accessible open spaces associated with the Winspear project. Improvements to City-owned open spaces (for example, sidewalks surrounding the building) could be funded from approved capital budgets, specifically the "Green and Walkable - Emerging Opportunities" project within the CRL composite profiles in the 2023-2026 Capital Budget. Improvements to open spaces located on the Winspear site can legally be funded by the CRL. However, it would be considered a contribution (operating expense) as these are not City-owned assets, which could not be financed by borrowing and would therefore be funded directly from the existing CRL reserve funds. This would result in a further increase in the reserve deficit.

The Downtown Vibrancy Fund is another option that may provide funding towards the Winspear Centre Project if all eligibility criteria are met.

The Quarters Downtown

The Quarters Downtown CRL was approved in 2011 and commenced in 2012. To date, the Levy has funded \$101 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 more than \$600 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

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

completed in 2015 at a total of \$29.6 million. Land sales and development have progressed more slowly than initially anticipated, but two City-owned parcels were sold in 2023, one of which will be the site of a housing development led by Treaty 8 First Nations of Alberta. Approximately \$55 million in new development has taken place within the Belvedere CRL area.

Funding/Revenue Availability

There is a timing difference between project expenses and CRL revenue generation. In each of the three levy areas, debt (referred to as CRL 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 begin to be repaid when annual levy revenues start to exceed annual expenditures. As an example, the Capital City Downtown Levy saw its annual revenues exceed its annual expenses from 2019 to 2022. As a result, the Capital City Downtown reserve deficit was reduced by \$14 million over that period.

The intent is for the reserve to be replenished over the life of the CRL (20 years from start date). If the reserve deficit is not repaid by the end of the term, annual tax-levy would be required until the deficit balance in the reserve is repaid.

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
- Belvedere - January 1, 2013 to December 31, 2032

Revenue scenarios for the three CRLs are 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, and 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.

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

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 downtown's ongoing recovery from the COVID-19 pandemic and encourage further redevelopment. These capital investments are further supplemented by a range of City programs like the Downtown Vibrancy Strategy and the 2021 Economic Recovery Construction Grant.

The current 20-year revenue projections for the Levy in the medium revenue scenario have decreased by \$103 million from Q1 2023, to \$679 million. This decline is driven primarily by the cancellation of a planned new office tower in Ice District and revised estimates for other Ice District properties, but it also reflects weaker expectations across a range of property types. Projections for CRL expenses have also increased, as rising interest rates have increased the projected borrowing costs for upcoming projects.

The medium- and low-scenario projections do not generate sufficient revenue to cover all funded catalyst projects. As a result, ongoing municipal tax revenues would be required to cover the remaining debt servicing costs. In the medium scenario, the shortfall of \$75.9 million would take until 2036 to be repaid, two years after the CRL ends. In the low scenario, the shortfall of \$123 million would take until 2037, three years after the CRL ends.

The high-revenue scenario generates sufficient revenue to cover the cost of all catalyst projects with an approved budget. In this scenario, the CRL could fund some, but not all, of the remaining, currently unfunded catalyst projects that are listed in the CRL Plan (which include Jasper Avenue New Vision, 100 Street Pedestrian Bridge, and ongoing Green and Walkable improvements).

In addition to updating the low, medium and high scenarios, a "stress test" scenario has been prepared. The stress test scenario assumes that no further development will occur other than the projects currently under construction and that assessed values will decline sharply and recover slowly. In this scenario, ongoing municipal tax revenues would be required to cover the \$189 million shortfall until 2040, six years after the CRL ends.

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

The Quarters Downtown - Financial Projections

Administration has prepared a revenue scenario for The Quarters Downtown. The current projections have decreased by \$23.7 million from a year ago, for a total of \$109.7 million over the 20-year levy period. This decrease is primarily due to Administration's decision to remove from the revenue scenarios a major development (referred to as the "Alldritt Tower") as the developer was unable to achieve certain conditions precedent under the terms of the sales agreement in 2023.

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

This projection indicates that revenues from the CRL will not be sufficient to cover all outstanding principal and interest costs of all The Quarters catalyst projects approved to date before the 2031 expiry of the Levy. The shortfall is projected to be \$47.9 million. Ongoing municipal tax revenues that continue beyond 2031 would retire the remaining debt servicing by 2036, five 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 2039, up to eight years after the CRL ends. Further detail about the financial projections is available in Attachment 3.

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 decreased slightly to \$31.8 million. 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 \$12.9 million. Ongoing municipal tax revenues that continue beyond 2032 would mitigate the remaining reserve deficit by 2037.

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.

Extension of a Community Revitalization Levy

A municipality may apply for an extension of the end date of an approved CRL. An extension would require provincial approval, while this is possible, it is not guaranteed. One of the six CRLs in Alberta has been extended; in 2019, the Rivers CRL in the City of Calgary was extended to 40 years. While extending a CRL would lead to an increased amount of funds for CRL approved projects, and the capture of the equivalent of the Education Property Tax, some considerations for an extension application may include, but are not limited to:

- Whether an extension for a CRL would be granted under the parameters in place at the time of initial approval or under the new parameters for CRL Plans¹ established by the Government of Alberta in 2022. If the extension was granted under the new parameters, CRL funding could not be applied to privately owned projects.
- Identifying catalyst projects that could be funded by an extension, and their ability to spur additional redevelopment. This would include impacts to CRL revenue as property taxes in the

¹ Alberta Municipal Affairs, *Community Revitalization Levy Guidelines* (July 4, 2022) p. 8, <https://open.alberta.ca/dataset/55b879dd-d983-4678-96ac-ee088ce6d76/resource/aa7e92d8-adc0-45f8-afb-e8b2824c5b54/download/ma-community-revitalization-levy-program-guidelines-2022.pdf>

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

CRL area would continue to be segregated in a CRL fund, rather than returning to general revenues in the timeframe under the current CRL term.

- Identifying the impact of any additional CRL-funded borrowing on the overall debt and debt-servicing limits of the City.

The province would first have to approve a new CRL regulation with an extended expiry date. City Council would then consider a new CRL Bylaw and CRL Plan at a Public Hearing. If approved, the Bylaw and Plan would then require provincial approval. The timeline, while unknown and dependent on the province, is anticipated to be at least one year.

The provincial approval process presents a potential risk. An amendment could be rejected, or it may lead to other unintended revisions to the CRL Plan that could compromise the overall vision for the CRL. Further, some current catalyst projects could be deemed ineligible under the new rules.

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, as 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 private 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 2 million people and to focus on the impact that the 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.

2024 COMMUNITY REVITALIZATION LEVY UPDATE - DOWNTOWN, THE QUARTERS DOWNTOWN, BELVEDERE

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 was not gathered.

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