Attachment 4

Impact to CRL Expenses and Revenue

Impact to CRL Expenses

A financial incentive for residential development is an operating expense that can not be funded by debt. Most catalyst projects are capital expenses which are approved to be funded by debt.

Delaying capital projects which are debt-funded frees up financial capacity over the remaining lifespan of the CRL, but since those costs were to be financed through borrowing, those costs were to be spread over a 10-year period. Therefore, the financial capacity that is freed up on an annual basis is relatively small. For example, delaying $10 million in capital expenditure would reduce annual expenses by approximately $1.3 million per year for 10 years.

The projected financial position at the end of the CRL in 2034 is just one measure of financial viability. Another measure is the balance of revenues and expenditures in a given year and the resulting impact to the CRL reserve. If CRL revenues exceed expenses in a given year, the surplus amount is transferred to the reserve. Conversely, when annual expenses exceed annual CRL revenues, funds are drawn from the reserve. As expenditures exceed revenues in the early years of a CRL, the Downtown CRL reserve currently has a negative balance of $10.5 million as of the end of 2023.

Current projections for CRL finances in the report UPE02234 indicate that CRL expenses are expected to exceed CRL revenues until 2031. The CRL operating costs are funded by the City's working capital initially, with future CRL revenue dedicated to repaying a portion of the amount by the time the CRL expires in 2034. However, since the CRL is already projecting a deficit balance by the end of the term, this means the deficit balance will need to be funded by the tax levy. Significant operating expenses, like a residential incentive program, would directly result in a deeper deficit balance that would ultimately be funded by the tax levy.

As a high-level example, if Council decided to delay Green and Walkable projects on 105 Avenue, 107 Avenue, and 103A Avenue (reducing borrowing costs by approximately $34 million) and funded a $33.6 million incentive program to be paid from 2026-2028, the Downtown CRL Reserve balance would reach an estimated deficit of $92 million by the end of 2028, approximately $18 million lower than the medium scenario. This estimate doesn’t account for the foregone CRL revenue that would have been generated had the cancelled projects proceeded. As well, several projects identified for potential reprioritization have already incurred design costs. If projects that are delayed do not proceed in a reasonable period of time, these costs can not be capitalized and funded by debt. These costs would be transferred to operating, resulting in a deeper deficit balance for the Downtown CRL Reserve.

As such, funding an incentive program through the CRL is not recommended.

Impact to CRL Revenue

New developments would generate revenue which would offset some of the cost associated with an incentive grant. The amount of revenue generated would vary based on the type of development (high-rise vs. low-rise vs. office conversion) and how quickly it is completed (and therefore the number of years remaining in the CRL). At the low end, an office conversion completed in 2027 would result in approximately $8 in CRL revenue per square foot over the remaining life of the CRL. At the high end, a high-rise new build completed in 2026 could generate up to $38 in CRL revenue per square foot over the remaining life of the CRL.

However, those estimates are only valid if the incentive causes development that would not have happened for at least 10 years in the absence of an incentive. The CRL projections (other than the Stress Test) assume that some amount of development will happen between 2024 and the CRL's expiry in 2034. It is plausible that incentivizing development today would be accelerating development that might have happened in a few years in the absence of an incentive.

Given that the current projection is that the Downtown CRL will end with a negative reserve balance at its expiry in 2034, Administration would recommend that any decision to fund a residential incentive should not worsen the projected shortfall. Administration recommends that the initial grant program budget be, at most, equal to the total cost of capital projects that are delayed, including principal and interest. Once grant agreements are signed, Administration can estimate CRL revenues and return to Council with options to restore funding to Catalyst Projects or expand the incentive program.