

## Non-residential Tax Base

### Recommendation:

That the October 5/6, 2015, Sustainable Development report CR\_2729, be received for information.

### Report Summary

**This report outlines the importance of industrial development for Edmonton's tax base, the challenges Edmonton faces to achieve greater industrial development, and an overarching Industrial Transformation Roadmap to grow Edmonton's non-residential tax base.**

### Report

Over the past several years, Edmonton City Council has been provided with significant industry and stakeholder input regarding the competitive state of Edmonton's industrial economy. Most recently, at the June 10, 2015, City Council meeting, agenda items 6.1 and 6.8 prompted a broad-based discussion of the City's non-residential tax base. This report responds to Administration's understanding that Council seeks more information on the City's non-residential tax base and its relation to the City's overall fiscal well-being.

As the city grows, it requires additional infrastructure and services to support that growth. As new residential development does not generate sufficient tax revenues to pay for the long term growth of the city, the non-residential tax base must expand. In the long term, non-residential development typically generates tax revenues far in excess of the costs of servicing that development. Therefore, it is imperative that the City grow the non-residential tax base in order to fund other City initiatives in a sustainable manner.

Although they comprise only 25 percent of Edmonton's total assessment, non-residential uses contribute approximately 50 percent of Edmonton's tax revenues, making these uses a key component of the City's fiscal well-being (see Attachment 1). This net-positive financial contribution to the City makes growing the non-residential tax base an imperative to support Council's city-building initiatives.

Non-residential uses includes institutional, commercial and industrial. While Administration can have little direct influence over institutional and commercial uses, there is considerable opportunity for Administration to facilitate growth of the industrial sector through an integrated approach across the corporation and with strategic investments.

### Challenges to Development

The continued expansion of industrial development in Edmonton is constrained because much of the high quality, shovel-ready industrial land in the city has been developed and there is a lack of new supply of developable land coming to market. Over the past ten years, about 140 hectares of industrial land have been consumed annually.

Currently, the city has 395 hectares of shovel ready or fully serviced land, 722 hectares of partially serviced land, and 5,553 hectares of un-serviced land, the majority of which is in the Edmonton Energy and Technology Park. Much of Edmonton's remaining industrial land is difficult to develop using the City's standard model of development.

The City uses a "developer-pay" model to bring new land to market, where the cost of new infrastructure is largely borne by private sector developers. This model generally works well for residential development, which has relatively short term carrying costs to development. The model has also been reasonably successful for contiguous industrial greenfield parcels that are adjacent to City services. However, the model does not work well for industrial land development that involves large upfront costs and long cost-recovery timelines. It also does not work well in areas that have partial rural services and diverse ownership. This is the case for the Edmonton Energy and Technology Park, and areas that were annexed with rural standard services like the Maple Ridge and Winterburn Industrial neighbourhoods.

### Scope and Magnitude

Each of the City's industrial areas has its own unique characteristics and requires a customized approach to realize its potential. Examples of the investments that can be made to advance the City's industrial economy are included as Attachment 3 - Scope and Magnitude of Priority Industrial Opportunities.

### The Industrial Transformation Roadmap

In order to effectively grow the industrial tax base, the City requires an integrated strategy that identifies opportunities and effectively directs City investment to attract industrial development. To this end, Administration has developed the Industrial Transformation Roadmap (see Attachment 4) that will improve co-ordination of industrial development activities across the corporation. The Roadmap considers stakeholder and financial outcomes, internal processes and resource capacity to enable Administration to align current activities, identify gaps, and prioritize opportunities for industrial growth.

The new Roadmap recognizes the challenges to growing Edmonton's industrial tax base and the imperative to meet these challenges in order to keep pace with the growing costs of service and infrastructure requirements in our City. Without leadership and a sustained commitment to reach the outcomes defined in the Roadmap, the City risks a future in which the tax base is insufficient to fund new city-building initiatives without a significant increase to the residential tax rate.

### Next Steps

The next steps in the Roadmap are to:

- continue to engage with key industry stakeholders
- prepare a full implementation plan
- prepare alternative model for industrial development, including best practices that support the model
- estimate potential costs, cash flows, and returns on investment
- conduct risk analysis for investment scenarios
- define the accountabilities and performance measures for proposed investments.

A key issue is to address how to bring services to those areas where the current developer pay model has not been successful. Taking a more active role in preparing land for industrial development will expose the City to new risks, including:

- risks that the demand for, and price of, industrial land will decrease
- risks that infrastructure investment will not be supported by other orders of government
- risks that other industrial lands in the region will out-compete the City in attracting investment.

Although there are risks involved, industrial development is a key part of Edmonton's fiscal well-being and is needed to advance Council's city-building objectives. More detailed risk, cost, and return on investment information will be prepared through the implementation plan.

Ongoing support from Council for the Roadmap is essential, and Administration intends to engage Council on all aspects of the industrial transformation program. Pending further Council engagement, there will be funding requests included in the 2016 budget process to initialize this work.

### Budget/Financial Implications

Administration is preparing an implementation plan to execute the new Industrial Transformation Roadmap and guide all administrative actions and funding requests.

### Attachments

1. Background – Edmonton's Non-residential Tax Base
2. Map of City of Edmonton's Industrial Areas
3. Scope and Magnitude of Priority Industrial Opportunities
4. Edmonton's Industrial Transformation Roadmap

**Others Reviewing this Report**

- T. Burge, Chief Financial Officer and Treasurer
- D. Wandzura, General Manager, Transportation Services