

# Updated CRL Revenue Forecast (K. Krushell)

Downtown Arena District

## Recommendation:

That the July 17, 2012, Sustainable Development report 2011SCO637, be received for information.

## Report Summary

**This report provides an update on the revenue potential for the Capital City Downtown Community Revitalization Levy.**

## Previous Council/Committee Action

At the June 20, 2012, City Council meeting, Councillor K. Krushell made the following Councillor Inquiry:

The Schematic Design for the Arena Project is to be presented to Council on July 4. The primary source of funding for this Project that has been identified is a Community Revitalization Levy. When we last saw the projected tax revenues from the Downtown Community Revitalization Levy, we saw a tax revenue forecast that was based on a conservative estimate of development expected in the downtown core over the next 20 years. With the recent announcement of three new residential towers, together with the possible additional new development by the Katz Group and their partner the WAM Development Group on the additional land they have acquired

near the arena, I would like to have an updated Community Revitalization Levy Revenue Forecast for July 4, 2012.

## Report

### Background

- At the August 31, 2011, City Council meeting, a report outlining the proposed Community Revitalization Levy Boundary, a list of proposed catalyst projects to be funded through a Downtown Community Revitalization Levy, and a Tax Revenue Forecast was considered. Then, at the October 26, 2011, City Council meeting, the boundary of the Capital City Downtown Community Revitalization Levy area was approved and the Mayor, on behalf of City Council, made an application to the Provincial Government requesting designation of the Capital City Downtown Community Revitalization Levy in a regulation.
- The decision to proceed with a Community Revitalization Levy confirmed the City's commitment to invest in the downtown, in essence giving funding priority to downtown projects. This commitment is based upon the premise that all Edmontonians benefit from a strong and vibrant downtown.

### Catalyst Projects

- The Capital City Downtown Plan identified a series of "Catalyst Projects" to be considered for funding through the Community Revitalization Levy.
- There were nine City-Led Catalyst Projects identified:
  - Central Warehouse Housing Incentive Program

- Jasper Avenue New Vision
  - Warehouse Campus
  - Neighbourhood Central Park
  - High Profile Bikeway
  - Green and Walkable Downtown
  - River Valley Promenades
  - Downtown Stormwater Drainage “Backbone”
  - Downtown Arena Building
  - Public Infrastructure associated with the Downtown Arena (LRT Connection, Pedestrian Corridor, Land for the Arena, Pedestrian Bridge Crossing 104 Avenue)
  - The projected costs for the Downtown Catalyst Projects currently under consideration total \$390 million.
  - Other emerging projects in the Downtown could be reviewed to determine if consideration should be given to adding them to the list of Community Revitalization Levy Projects.
  - As with any Capital Project, Council may choose to allocate funding from a number of sources, including a Community Revitalization Levy. If some projects receive alternative funding, such as Municipal Sustainability Initiative funding, then the amount to be borrowed under the Community Revitalization Levy would be less.
- Community Revitalization Levy Revenue Potential
- To respond to Council’s motion, Administration has updated the previous revenue forecast that had been developed.
  - The current projections reflect a revised forecast based upon three changes to the previous forecast: first, a slight increase in the base level (no growth) due to a marginal increase in the 2011 base line assessment, second the addition to the conservative and accelerated forecasts of new structured parking near the arena and the three residential towers recently announced; and third, addition to the accelerated forecast of tax revenues from the proposed development plans put forward by the Arena Development Group Joint Venture Partnership (i.e. WAM and Katz) in conjunction with the Arena development plans.
  - The Arena Development Group planned development includes a total of 3.79 million square feet of mixed use development valued in the order of \$2 billion over the next 20 years (refer to Attachment 1, scenario 1). Of greater significance is the accelerated timing of this development, with approximately 50 percent of it occurring immediately, in conjunction with the Arena development. While the forecast has been updated to reflect the impact of this new development, it must be noted that development permits have not yet been secured nor are they guaranteed. The Arena Development Group has advised that their plans are contingent upon securing an anchor tenant for their proposed office tower, and that they will not proceed until such time as an anchor tenant is secured.
  - With the addition of new developments being contemplated within the current Community Revitalization Levy boundary over the next 20 years, the tax revenue estimate has been revised upwards. It is now expected to generate

almost \$1.6 billion in new tax dollars (net present value of \$803 million) as compared to the previous revenue estimate of \$1.2 billion (net present value \$600 million). In the event that the additional development proposed by the Arena Development Group proceeds but at a more conservative pace than has been suggested, the forecast has been adjusted to reflect a \$1.4 billion (net present value of \$700 million) revenue position over the 20 year time frame.

- With the expectation that the net present value of the projected Community Revitalization Levy revenue is double the estimated cost for all potential Catalyst Projects, the risk of the Community Revitalization Levy not being sufficient is reduced.
- Of the \$1.6 billion new tax dollars, approximately 20 percent (\$340 million - \$173 million net present value) reflects the education portion of the tax that would be remitted to the Province if a Community Revitalization Levy is not implemented.

### **Policy**

The Capital City Downtown Plan Catalyst Projects are consistent with policies identified in the Municipal Development Plan, The Way We Grow.

### **Corporate Outcomes**

The Capital City Downtown Plan Catalyst Projects are aligned with the City's ten-year strategic goals of transforming Edmonton's urban form, improving Edmonton's livability, and shifting Edmonton's transportation modes.

### **Attachment**

1. Summary of Downtown Community Revitalization Levy Revenue Projections – July 2012 Update

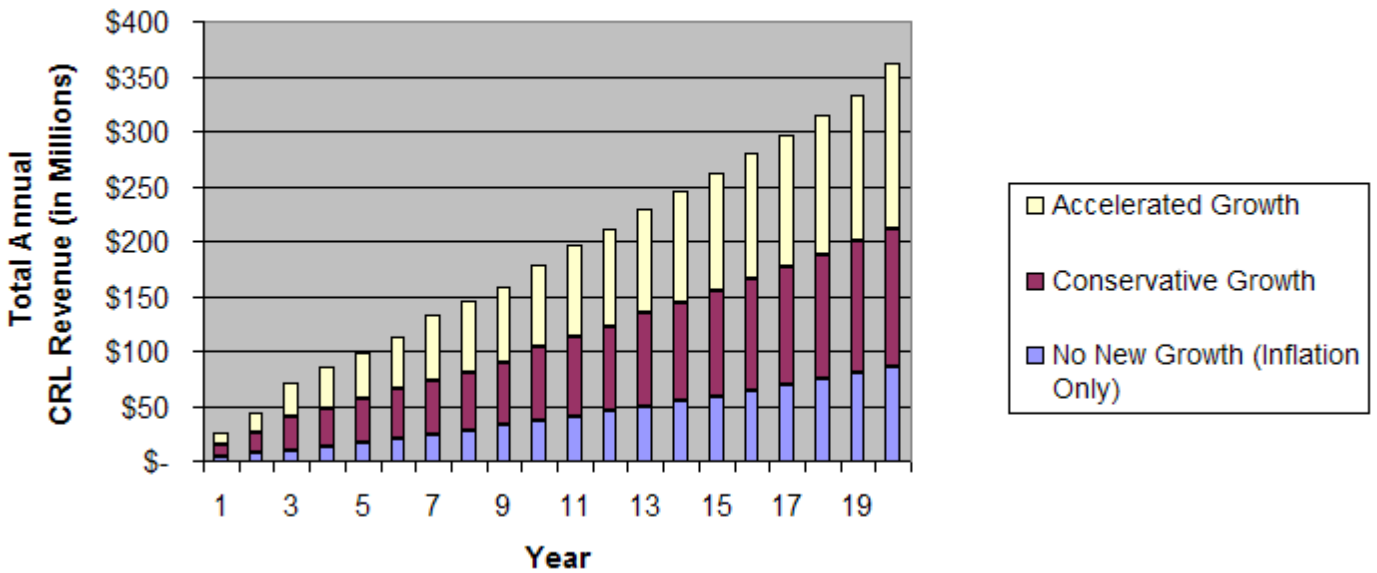
### **Others Reviewing this Report**

- L. Rosen, Chief Financial Officer and Treasurer

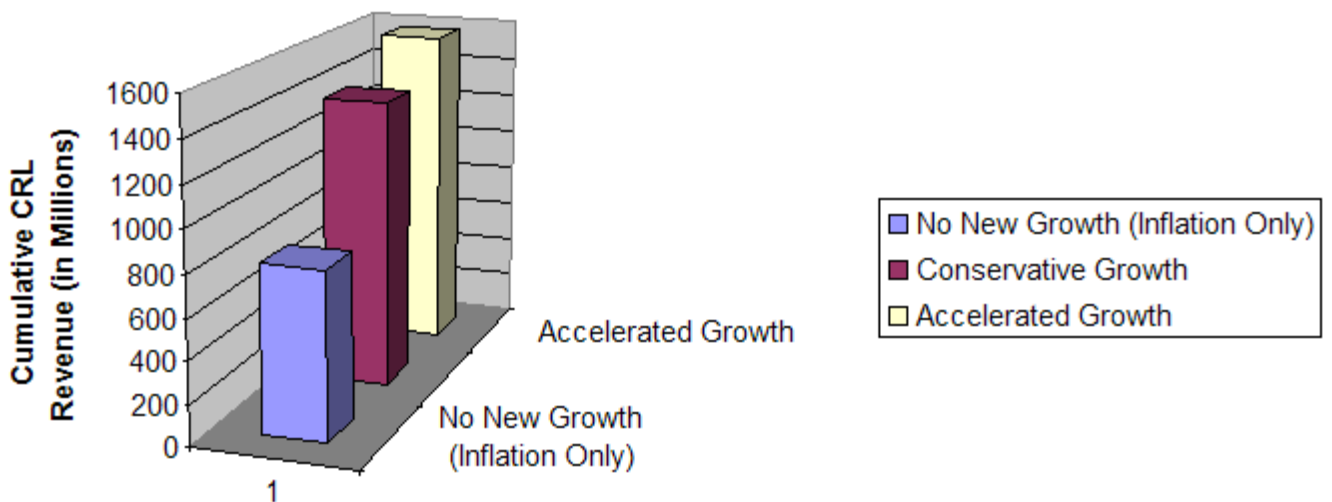
## Summary of Downtown Community Revitalization Levy Revenue Projections – July 2012

	SCENARIO 1	SCENARIO 2	SCENARIO 3
<b>TOTAL CRL REVENUE</b>	<b>ACCELERATED GROWTH (Accelerated Catalyst Effects)</b>	<b>CONSERVATIVE NEW DEVELOPMENT AND GROWTH (Catalyst Effects)</b>	<b>PROPERTY APPRECIATION/INFLATION ONLY</b>
<b>TOTAL CRL REVENUE (Cumulative)</b>			
<b>Municipal</b>	\$1,238 M	\$1,096 M	\$642 M
<b>Education</b>	\$340 M	\$295 M	\$165 M
<b>Total</b>	<b>\$1,578 M</b>	<b>\$1,391 M</b>	<b>\$807 M</b>
<b>TOTAL CRL REVENUE (NPV)</b>	@ 5.5%	@ 5.5%	@ 5.5%
<b>Municipal</b>	\$630 M	\$559 M	\$313 M
<b>Education</b>	\$173 M	\$150 M	\$80 M
<b>Total</b>	<b>\$803 M</b>	<b>\$709 M</b>	<b>\$393 M</b>
		*formerly "CONSERVATIVE GROWTH" (August 2011)	*formerly "NO GROWTH" (August 2011)

**Annual CRL Revenue Over 20 Years**



**Cumulative CRL Revenue Over 20 Years**



## SUMMARY ASSUMPTIONS AND NOTES

### SCENARIO 1: SIGNIFICANT DEVELOPMENT/MARKET VALUE INCREASE DUE TO THE CATALYST PROJECTS

Underlying context is significant development occurring from the WAM/Katz development proposal for the immediate lands by the proposed Arena project. In total, the WAM/Katz development proposes the construction of 11 buildings comprising 3,971,050 SF, all of which is included in the 20 year CRL period commencing 2014.

However, other important projects are included as well, which have either been approved by development permit or have been announced. Of these, significant projects include the 'Ultima' (high rise tower on 103 Street, south of 103 Avenue), 'Fox 1/Fox 2' (two towers on 104 Street, north of 102 Avenue), 'Yorkton Towers' (west of 97 Street and north of 105 Avenue), and 'The Mayfair' (east of 109 Street and south of Jasper Avenue)

The preceding development is essentially additional to the development which was incorporated into the analysis that produced our former CONSERVATIVE GROWTH estimates (August 2011), which were based on *Downtown Edmonton Commercial, Office and Residential Forecasts 2009 – 2044* (G.P. Rollo & Associates; April 2010; [http://www.edmonton.ca/city\\_government/documents/Downtown\\_Forecasts.pdf](http://www.edmonton.ca/city_government/documents/Downtown_Forecasts.pdf)). GP Rollo updated its Downtown Market forecasts in June 2012, which again projects higher growth than that as summarized below.

Scenario 1 includes the additional expected market value increase (Year 1: 7.5%, Year 2: 7.5%, Year 3: 7.5%, Year 4: 5.0%) over and above the forecasted annual inflation rate (3%) that is expected to be generated by the Catalyst Projects identified in the Capital City Downtown Plan (CCDP), which was approved by City Council July 7, 2010.

The analysis incorporates updated 2012 Assessment Baseline and 2012 Mill Rates, and is based on the following.

- **Downtown CRL:** Effective January 1, 2014 and extending through 2033
- **Arena:** Construction completed in 2016; but no tax revenue is allocated to the property.
- **Retail:** Total projected build-out of 1,038,466 SF GFA, of which WAM development occurs as follows: 170,650 SF (2016); 206,072 SF (2020); 57,300 (2022); 76,000 SF (2024); 131,000 SF (2026); 83,000 SF (2027); 152,000 SF (2022).
- **Hotel:** Total projected build-out of 548,175 SF GFA, of which WAM development comprises 369,675 SF in 2020.
- **Casino:** Assumed 90,000 SF in Year 2016
- **Office:** Total Projected build-out is 1,740,000 SF, which includes WAM development as follows: 75,500 SF (2016); 600,000 SF (2020); 28,500 SF (2022); 38,000 SF (2024); 65,500 SF (2026); 41,500 SF (2027); 756,500 SF (2033).
- **Parkade:** Comprises 3,000 underground parking stalls associated with the non-residential uses as identified as Blocks A, C, D, E and F in the WAM development plan.
- **Residential:** Total projected residential build-out of 3,144,234 SF (saleable), which includes WAM development as follows: 77,350 SF (2020); 243,600 SF (2022); 281,450 SF (2024); and 334,900 (2033). Also included is 1,280,000 SF (carried over from the 2011 analysis) which is expected to be developed as a result of the Central Warehouse Housing Incentive (\$12,000/dwelling).
- **Adjustment for Loss of Existing Land Assessment (and Tax Revenue) Due to Development:** No change from 2011 version.

### SCENARIO 2: CONSERVATIVE DEVELOPMENT/MARKET VALUE INCREASE DUE TO CATALYST PROJECTS (FORMER CONSERVATIVE GROWTH SCENARIO)

Underlying context is the forecast information contained in *Downtown Edmonton Commercial, Office and Residential Forecasts 2009 – 2044* (G.P. Rollo & Associates; April 2010; [http://www.edmonton.ca/city\\_government/documents/Downtown\\_Forecasts.pdf](http://www.edmonton.ca/city_government/documents/Downtown_Forecasts.pdf)). GP Rollo updated its Downtown Market forecasts in June 2012, which again projects significantly higher growth than that as summarized below.

This scenario includes the additional expected market value increase (Year 1: 7.5%, Year 2: 7.5%, Year 3: 7.5%, Year 4: 5.0%) over and above the forecasted annual inflation rate (3%) that is expected to be generated by the Catalyst Projects identified in the Capital City Downtown Plan (CCDP), which was approved by City Council July 7, 2010.

The analysis incorporates updated 2012 Assessment Baseline and 2012 Mill Rates, and is based on the following.

- **Downtown CRL:** Effective January 1, 2014 and extending through 2033
- **Arena:** Construction completed in 2016; but no tax revenue is allocated to the property.
- **Retail:** Total projected build-out of 594,440 SF GFA, of which WAM development occurs as follows: 80,850 SF (2016); 174,000 SF (2023); 89,800 SF (2026).<sup>1</sup>
- **Hotel:** Total projected build-out of 482,175 SF GFA, of which WAM development comprises 369,675 SF in 2026.<sup>2</sup>
- **Casino:** Assumed 90,000 SF in Year 2016<sup>3</sup>
- **Office:** Total projected build-out is 704,080 SF, which includes WAM development as follows: 50,000 SF (2016); 600,000 SF (2023); 25,500 SF (2026).<sup>4</sup>
- **Parkade:** Comprises 3,000 underground parking stalls associated with the non-residential uses as identified as Blocks A, C, D, E and F in the WAM development plan.<sup>5</sup>
- **Residential:** Total projected residential build-out of 1,845,350 SF (saleable), which includes WAM development as follows: 77,350 SF (2026).<sup>6</sup>
- **Adjustment for Loss of Existing Land Assessment (and Tax Revenue) Due to Development:** No change from August 2011 version.

#### August 2011 Footnotes

#### **SCENARIO 3: PROPERTY APPRECIATION/INFLATION ONLY (FORMER NO GROWTH SCENARIO)**

This scenario is based simply on the forecasted annual property appreciation/inflation rate of 3%. The analysis incorporates updated 2012 Assessment Baseline and 2012 Mill Rates, and is based on the following.

- **Downtown CRL:** Effective January 1, 2014 and extending through 2033
- **Arena:** Construction completed in 2016, but no tax revenue is allocated to the property.<sup>7</sup>
- **No New Development/No Market Value Increase resulting from Catalyst Projects:** Tax revenue is solely the function of a projected, annual 3% increase in existing assessment over 20 years, except as noted above for the Arena.

<sup>1</sup> This compares to total projected build-out of 336,430 SF over 20 years which was projected previously in August 2011, and which was based on 20% of virtually 100% of total Downtown development projected in the 2010 Rollo report.

<sup>2</sup> This compares to total projected build-out of 337,500 SF which was projected previously in August 2011.

<sup>3</sup> Unchanged from that in August 2011

<sup>4</sup> This compares to total projected build-out of 133,000 SF which was projected previously in August 2011.

<sup>5</sup> This compares to total projected build-out of 1,000 stalls which was projected previously in August 2011.

<sup>6</sup> This compares to total projected build-out of 1,280,000 SF which was projected previously in August 2011, and which was based on 20% of 70% of total Downtown development projected in the 2010 Rollo report.

<sup>7</sup> In August 2011, the Education Tax Lift component from the Arena was excluded.

