

Planning and Development Business Model

Proposed Fiscal Strategy

Recommendation

That Executive Committee recommend to City Council:

That an exception, until December 31, 2022, to the Planning and Development Reserve minimum balance requirements under City Policy C610 Fiscal Policy for the Planning and Development Business, be approved.

Executive Summary

The Urban Form Business Transformation Initiative (UFBT Initiative) was launched in 2018 to improve planning and development services, and was completed in December 2019. Service improvements include:

- reducing red tape while maintaining safety standards for builders with good track records in Edmonton;
- expediting simple, straightforward development permits;
- reducing timelines for rezoning, subdivision and endorsements, and setting targets to measure and maintain service;
- improving speed to market for commercial, industrial and large-scale residential development;
- new and enhanced digital application options; and
- improving information available to staff and customers.

In addition to UFBT, Administration has identified opportunities to expand securities financing options for servicing agreements to free up capital and enhance developers' ability to raise capital. The Fiscal Policy for the Planning and Development Business (City Policy C610) and planning and development business model were updated to improve governance of the business model and stability of service delivery through the ups and downs of economic cycles. However, a sharp downturn in 2019 construction activity has created a prolonged shortfall in revenue that is required to cover expenses.

The Planning and Development Reserve (the Reserve) balance continues to decline as a result of the net deficit. To sustain service delivery and support further ongoing process improvements while also refining the Planning and Development Business Model, Administration has identified cost savings of \$4.6 million in 2020, \$5.8 million in 2021 and \$7.9 million in 2022 for a total reduction of \$18.3 million to the approved budget. However, these savings will not fully offset the revenue shortfall.

Administration is recommending that an exception to the minimum balance requirements within City Policy C610 be granted until December 31, 2022 so that Administration can 1) continue to prioritize service delivery and 2) complete further analysis to inform potential long-term adjustments to the Planning and Development Business Model.

Report

Delivering efficient, predictable planning and development services to city-building partners attracts investment to Edmonton, creates economic vibrancy, and supports quality of life for Edmontonians. The City of Edmonton is undergoing an evolution to improve these services and meet the ever-changing demands of building a modern city.

Started in late 2017, the Urban Form Business Transformation Initiative (Initiative) focused on improving planning and development services to address inconsistent service delivery, common customer frustrations and internal resource challenges, through an integrated approach (see Figure 1).

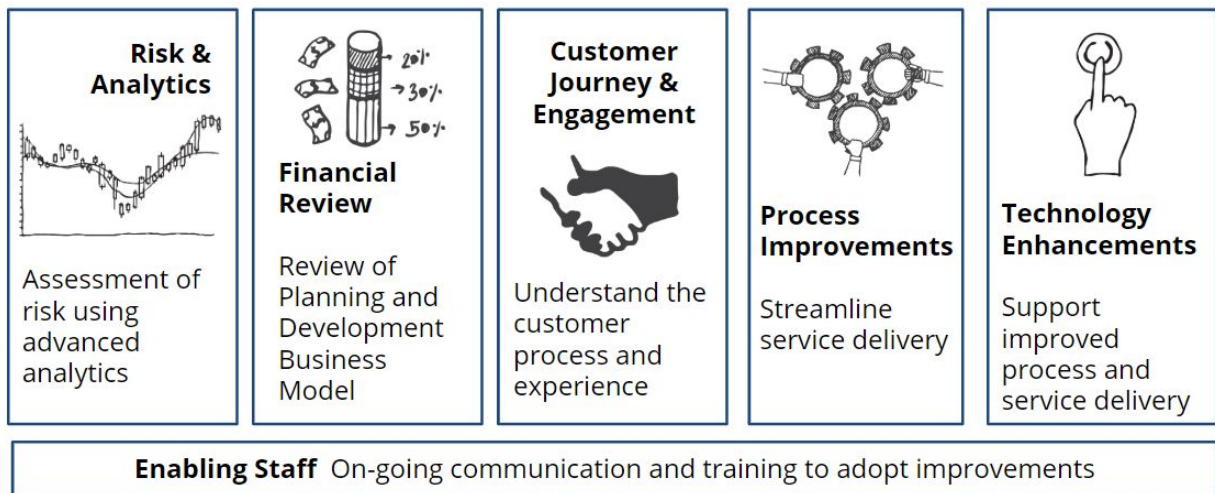


Figure 1: Approach Used by Urban Form Business Transformation Initiative

Attachment 1 provides more information on the impacts and benefits of the Initiative across planning and development services.

Risk & Analytics

The Initiative leveraged advanced data analytics to assess risk and implement two improvements to Safety Codes Inspections:

1. **Footing & Foundation Inspections** (launched June 2018) - the program rewards builders who have a history of meeting safety code regulations. Builders with a good track record only have five percent of their projects inspected instead of 100 percent of their projects.
2. **Predictive Model for Plumbing and HVAC Inspections** (launched October 2019) - this improvement reduces the number of non-mandatory inspections using an advanced predictive model. This allows inspectors to focus on more complex inspections and helps manage overall inspections workload. Customers with good track records can move ahead with their projects faster. Edmonton is the first in Western Canada to apply predictive modelling to safety codes inspections.

The changes allow the City to meet regulatory requirements while efficiently using resources by focusing inspectors on inspection types with greater risk. Builders are responsible for meeting safety code regulations and request inspections as usual.

Customer Journey & Engagement

Focusing on the customer experience is core to the approach for improving planning and development services. Many industry partners contributed advice and expertise to this effort, participating through:

- focus groups and interviews as part of customer journey mapping;
- ongoing involvement as members of the project working groups;
- testing process changes and technology in order to provide feedback prior to full launch;
- attendance at project workshops; and
- quarterly discussions on the Initiative at the Business Advisory Committee.

Engagement included the Business Advisory Committee, a formalized advisory group of industry stakeholders comprised of the Edmonton Chamber of Commerce, the Urban Development Institute, the Canadian Home Builders' Association, the Building Operators and Managers Association, the Commercial Real Estate Development Association, Infill Development Edmonton Association and the Realtors Association of Edmonton.

As a result of the perspectives provided through engagement, Administration implemented the following customer-focused improvements:

- Reconfigured the planning and development services sub-pages on the City's website.
- Maintained up-to-date resources (e.g., website, brochure, training documents, etc.) for customers and staff.

- Established the Client Liaison Unit, - providing a single point of contact to manage select commercial, industrial and large scale residential permit applications.

Process Improvement Projects

Administration used engagement with the Business Advisory Committee to inform the process improvement activities undertaken. The process improvements balance timely service that supports city-building partners and uphold regulations that support quality of life for Edmontonians.

Process improvement projects included:

- **Expansion of the expedited development permit program** - Allowing more participants and applications to use the program, which approves a simple house development permit in two days. This enables Administration to reallocate personnel to more complex applications. Expanding the expedited permitting process resulted in a 59 percent increase in the number of builders participating.
- **Rezoning Redesign and Subdivision Process Improvement** - Both projects focused on standardizing processes, improving efficiency to reduce timelines, setting target timelines, and updating technology to provide a timely and consistent customer experience.

These projects support the City's efforts to deliver excellent service to the community by:

- improving online services, information accessibility and clarity;
- increasing the use of specific, measurable target timelines and defined process standards to improve consistency and predictability;
- improving processes that focus on tasks that add value and reduce rework; and
- ensuring that industry perspectives are fully understood and appreciated in the development of new processes.

Technology Enhancement

Technology enhancements support staff by reducing effort and rework, increasing collaboration, and increasing transparency to customers. Technology enhancements also increase review efficiency and offer the convenience of online service.

Enhancements include:

- updated and expanded land development online services, such as endorsement of subdivisions and pre-application meetings;
- online Home Improvement Permit applications to improve customer experience and streamline the process; and

- commercial and industrial permit (development & building) application, with digital plan review online in June 2019.

More than 60 percent of commercial and industrial development permits, and Home Improvement Permits are submitted online, with uptake steadily increasing for all categories. Most types of planning and development applications are now available online. This has alleviated the need for developers to prepare expensive paper plans and receive in-person service at Edmonton Tower.

Enabling Staff

Staff provided expertise and contributed to the Initiative while continuing to deliver services. The improvements focused on supporting staff to develop and adopt process changes to improve delivery of service. This includes:

- engaging staff alongside city-building partners in creating solutions;
- standardizing roles and responsibilities within processes;
- training and change management in support of new processes; and
- creating a digital repository called the Knowledge Library to provide staff with the information needed to deliver service.

The Knowledge Library provides staff with one location to find the information they need for planning and development services including procedures, training tools, and weblinks. This digital repository is an important step to providing consistent, effective and efficient service to our customers. The content of the library continues to grow and a process is in place to ensure it is maintained as changes occur in services.

Sureties Financing

In addition to the progress made as part of the Initiative, Administration has explored the option of accepting surety bonds to secure servicing agreements. Under the City's current guidelines for establishing security in regard to letters of credit, developers must provide collateral to their financial institution, which locks their cash and limits their ability to raise capital.

A surety bond (Subdivision Bond) gives developers an additional alternative for providing security in support of advancing projects within Edmonton. Under a Subdivision Bond, developers may not need to provide collateral depending on the developer's rating and issuer's requirements - this frees up their capital for construction purposes.

The primary risk to the City is risk for default on the bond. These bonds would be considered only for established developers (best-in-class developers). Under the Subdivision Bond, sureties "prequalify" the developer, providing assurance to the City that the developer is qualified to successfully complete the development. The City

would rely on sureties that are classified under the list of licensed issuers in Alberta to minimize the risk of default. Administration will monitor the risk rating of sureties and developers to minimize the risk of any default.

Administration is currently developing the required guidelines, forms, templates, and processes in order to formalize required securities and other items needed prior to a pilot in the first quarter of 2020.

Financial Review of the Business Model

Administration, with input from city-building partners, undertook an evaluation and update of the Planning and Development Business Model. Policy C610 (Fiscal Policy for the Planning and Development Business) was adopted by City Council on November 27, 2018 (CR_6035 Revised Business Model and Reserve Policy). The policy formalizes the fiscal management and operating principles of the planning and development business to ensure long term fiscal sustainability and service stability while enabling growth within Edmonton.

The updated Policy includes new governance provisions over eligible expenses attributed to the Planning and Development Business Model. Eligible expenses include service enhancements such as the Initiative. Feedback on the success of the initiative from city-building partners has highlighted the direct economic benefit of delivering efficient, effective planning and development services. The initiative also demonstrated the effort and rigour required to make large, sustained improvements to these services.

Financial / Budget Implications

From January to November 2019, planning and development revenue was \$11.5 million, or 19 percent, lower than budget as a result of overly optimistic revenue projections and lower than anticipated economic growth. A summary of economic challenges and the impact on the planning and development business is included in Attachment 2.

The lower than budgeted revenue is partially offset by operational savings of \$5.4 million, or 10 percent, but the program is operating in a deficit position and is resulting in a decline in the balance of the Reserve. The Reserve balance is \$14.8 million, or 23 percent, of budgeted operating expenses as of November 30, 2019. Administration is projecting lower than budgeted revenues throughout 2020 and, without further changes to the policy, the Reserve is anticipated to remain below the minimum balance for the duration of the 2019 - 2022 budget cycle.

To address the ongoing draw from the Reserve, Administration has identified cost avoidance and cost savings of \$4.6 million in 2020, \$5.8 million in 2021 and \$7.9

million in 2022 for a total reduction of \$18.3 million to the approved budget. Further analysis and adjustments to the business model will be needed to sustain service delivery and continue delivering improvement initiatives in the long term. The current projected reserve balance and impact of the proposed fiscal strategy are outlined in Attachment 3.

The implementation of the ongoing cost savings is expected to keep the Reserve in a positive balance through 2020. The Reserve is not expected to reach the minimum balance of 30 percent of budgeted operating expenses within the 2019-2022 budget cycle. The proposed approach requires an exception to the minimum balance requirement included in Policy C610 until December 31, 2022.

Next Steps

Ongoing process improvements to planning and development services will continue. Next year will include:

- a Cost of Service study to identify risks to the long-term sustainability of planning and development services, and proposed fiscal strategy,
- return to City Council as part of the 2020 Fall Supplemental Operating Budget Adjustment for approval of the proposed fiscal strategy as required by Policy C610,
- monitoring changes made in 2019 to ensure adoption and continuously measure value,
- a focus on improving development permits, building permits and business licensing services to support a business-friendly city,
- developing staff training to support consistent customer service excellence, and
- expanding specific timeline targets to all planning and development services for increased predictability.

A report will be provided in early 2020 that will bring together Administration's on-going improvement efforts above with a response to the August 27, 2019, City Council motion:

“That Administration bring a report:

- identifying potential reductions and implications to timelines for Business Licenses, Development Permits and Building Permits by a target of one-third,
- efficiencies to any other existing City regulations affecting business.”

The report will outline opportunities to reduce timelines for these services, alongside other ways to support businesses.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Conditions of Success

Outcome(s)	Measure(s)	Result(s)	Target(s)
Effective and Efficient Service Delivery:	Number of new commercial /Industrial Permits (Building Better Together)	New construction only Development Permit = 57 median work days to issue Building Permit = 52 median work days to issue (Quarterly weighted average from Q3 2018 to Q2 2019)	TBD (2020)
	Number of calendar days from subdivision application to decision (Subdivision Process Improvement)	Average Days from Submission to Decision for Major = 226 calendar days (Quarterly weighted average from Q3 2018 to Q2 2019) Average Days of Approval of Registration for Major = 19 calendar days (Calculated using applications submitted in 2019 up to August 26, 2019)	An average of 100 calendar days to issue a conditional approval letter for a complete major subdivision application. 18 calendar days to endorse a plan of survey if a complete endorsement package is submitted.
	Number of calendar days from complete submission to public hearing (Rezoning Redesign)	160 calendar days - Average timeline for completed Rezoning Land Development Applications (2018)	The rezoning process, measured from complete submission to public hearing: -Non-complex applications: 90 calendar days (3 months) -Complex application: 160 calendar days (5.5 months)
	Number of safety codes inspections completed within 5 days of requested inspection date (Safety Codes Inspections Efficiencies)	N/A	TBD 2020

Results reflect current timelines of planning and development services as reported in the Urban Form and Corporate Strategic Development Quarterly Activity Report, Second Quarter 2019 unless noted otherwise.

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial	If the recommended strategy is not approved, the	5 - almost certain	2 - moderate	10 - medium	Hiring restraint to maintain favourable cost variance	Revisions to the proposed fiscal strategy based on Council direction

	Planning and Development Reserve Fund will be depleted and the ability to fund service delivery will be reduced					
Economic	If construction activity slows beyond current forecasts, the Planning and Development Reserve Fund will be depleted and the ability to fund service delivery will be reduced	3 - possible	2 - moderate	6 - low	Improve revenue forecasting model and incorporate changes to forecasts into the budget	Develop a flexible workforce strategy that allows for resources to be deployed as volumes and revenues fluctuate
Customers / Citizens	If the recommended strategy is not approved, further cost reduction will be required to avoid depletion of the Planning and Development Reserve Fund and the ability to deliver service will be reduced	3 - possible	2 - moderate	6 - low	Develop contingency plans for achieving further cost reduction	Revisions to the Planning and Development Business Model that improve long-term service stability

Attachments

1. Impacts and Benefits of Urban Form Business Transformation
2. Economic Challenges and Impacts to the Planning and Development Business Model
3. Projected Planning and Development Reserve Balance and Impacts of Proposed Fiscal Strategy

Others Reviewing this Report

- S. Padbury, Acting Deputy City Manager and Chief Financial Officer, Financial and Corporate Services
- K. Armstrong, Deputy City Manager, Employee Services
- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services

- B. Andriachuk, City Solicitor, Office of the City Manager