

Community Revitalization Levy Update - Downtown, The Quarters Downtown, Belvedere

Recommendation

That the February 22, 2021, Urban Form and Corporate Strategic Development report UFCSD00222, be received for information.

Executive Summary

The City of Edmonton has three Community Revitalization Levy plans: Capital City Downtown, The Quarters Downtown, and Belvedere. The levies provide a sustainable funding source for strategic public infrastructure investments, also known as catalyst projects, that attract new investment and development in the area. The Community Revitalization Levy plans support the City's financial management outcome of ensuring the City of Edmonton's resilient financial position. Each levy is in effect for a period of up to 20 years.

Administration continuously monitors and updates the revenue potential of each levy based on development activity and market conditions. This information is provided to Council annually.

The economic outlook for the three Community Revitalization Levy Areas is as follows:

- The Capital City Downtown Levy is projected to generate between \$710 million (low scenario) and \$825 million (high scenario) in revenues. This is a decrease of \$36 million (low scenario) and \$77 million (high scenario) from the 2019 forecast, but is sufficient to fund all currently approved projects and most of the unfunded Downtown catalyst projects.
- The Quarters Downtown Levy is projected to generate \$156 million in revenues. This is a decrease of \$6 million from the 2019 forecast, but is sufficient to fund all currently approved catalyst projects.
- The Belvedere Levy is projected to generate \$42.3 million in levy revenues and land sales. This is a decrease of \$2 million from 2019. This is not sufficient to fund all outstanding principal and interest payments. The municipal tax levy beyond 2032 will be required to pay off the remaining debt.

The amounts above refer to total projected revenue over the life of each Community Revitalization Levy.

Report

The City Council- and Government of Alberta-approved Community Revitalization Levy Plans provide a sustainable funding source for public infrastructure investments needed to attract private development to revitalization areas.

The Capital City Downtown Community Revitalization Levy was approved in 2014 and commenced in 2015. To date, construction of Rogers Place and other downtown catalyst projects has spurred more than \$4 billion in new development that is complete or under construction. The Levy revenues that will be generated from this new development fund part of Rogers Place and its associated infrastructure, Alex Decoteau Park, acquisition of land for a new park in the Warehouse Campus area, new upgraded drainage servicing and the Jasper Avenue New Vision project. The Levy revenues are also approved to fund construction of the new park in the Warehouse Campus area, Green and Walkable streetscape improvements, renovations to Centennial Plaza and a pedestrian bridge across McDougall Hill.

The Quarters Downtown Community Revitalization Levy was approved in 2011 and commenced in 2012. To date, the Levy has funded \$67 million in public infrastructure improvements for catalyst projects such as The Armature, upgraded drainage servicing, Kinistinaw Park and the adaptive reuse of City-owned buildings into new art spaces. These investments have attracted over \$800 million of completed, in-progress and planned private developments.

The Belvedere Community Revitalization Levy was approved in 2012 and commenced in 2013. Construction of Station Pointe infrastructure improvements, including streetscapes, plazas and the CN safety wall, were completed in 2015. To date, land sales and development have progressed slower than anticipated. In 2020, Council approved changes to the land use regulations in effect in order to facilitate land sales and development.

In 2020, the Province of Alberta renewed the enabling regulations for The Quarters Downtown and Belvedere Community Revitalization Levies, authorizing them to continue through the end of their 20-year term. The Capital City Downtown Community Revitalization Levy Regulation will be up for regulation renewal in 2023.

Attachment 1 provides a brief update on the status of each of the capital projects funded by the Community Revitalization Levies.

Funding/Revenue Availability

There is a timing difference between project expenses and Community Revitalization Levy revenue generation. In each of the three levy areas debt was used to finance projects. Debt servicing expenses associated with capital investment began immediately, before there was sufficient revenue generated to fully cover these costs. These annual shortfalls have resulted in a negative reserve position for each of the three Levies. These reserves will be repaid when annual Levy revenues start to exceed annual expenditures.

For example, the Capital City Downtown Levy has seen its annual revenues exceed its annual expenses in 2019 and 2020. As a result the Capital City Downtown reserve deficit has been reduced by more than \$9 million.

If the Community Revitalization Levies progress as planned for the Downtown and The Quarters Downtown and reserves are fully repaid, a positive reserve balance will accumulate. At this point, Council will have the option to fund catalyst projects in the Community Revitalization Levy Areas with the excess of the revenue over expenses that is accumulating in the reserves (instead of borrowing). Administration will only bring forward future catalyst projects for capital budget approval if there is sufficient financial capacity and the project is included in the Community Revitalization Levy Plans.

Revenue Scenarios

Community Revitalization Levy revenue is primarily a function of three factors:

1. new development that occurs,
2. increases in assessed value of existing properties within the levy areas over the base years, and
3. mill rates.

The Belvedere Community Revitalization Levy also includes revenue from land sales.

Each Edmonton Community Revitalization Levy can span up to 20 years from the date of commencement: Capital City Downtown (January 1, 2015 - December 31, 2034), The Quarters Downtown (January 1, 2012 - December 31, 2031) and Belvedere (January 1, 2013 - December 31, 2032).

Revenue scenarios for the three Community Revitalization Levies have been 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 revenue scenario is prepared for the Quarters and Belvedere Levies, while three revenue scenarios 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.

Capital City Downtown

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 valuations.

The current projections for the Levy in the medium scenario have decreased by \$64 million from 2019 to \$753 million. This is being driven by decreased assessment values across all property classes resulting from the COVID-19 pandemic, and Council's decision to reduce the tax increase to 0 percent for 2021 and 1.6 percent for 2022. The high revenue scenario generates sufficient funding to complete all funded and unfunded catalyst projects included in the Community Revitalization Levy plan. The medium and low scenarios generate sufficient funding to complete most of the catalyst projects included in the Community Revitalization Levy plan.

Administration will continue to monitor revenues and will adjust the implementation schedule of future catalyst projects as required. Administration will only recommend funding unfunded catalyst projects in future capital budgets once projected revenues are sufficient to cover the capital and debt servicing costs.

In addition to updating the low, medium and high scenarios, a "stress test" scenario has been prepared. The stress test scenario assumes no further development other than the projects currently under construction and that assessed values will decline sharply and recover slowly. While this scenario is highly unlikely, the anticipated revenue would still be sufficient to pay for all currently approved projects, including principal and interest charges.

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

The Quarters Downtown

Administration has prepared a revenue scenario for the Quarters Downtown. The revenue projection has decreased over the previous year, due to decreases in assessed values. This results in a projection decrease of \$6 million for a total of \$156 million over the 20-year levy period. This revenue is sufficient to cover principal and interest costs of all Quarters catalyst projects approved to date.

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 2037.

Further detail about the financial projections is available in Attachment 3.

Belvedere

Administration has prepared a revenue scenario for Belvedere. Development in the area has not progressed as anticipated in the original plan. The decrease in market values resulting from the COVID-19 pandemic has further decreased Administration’s revenue expectations for the Belvedere Levy by \$1.7 million to \$42.3 million. The projections indicate revenues from the Community Revitalization Levy and 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 \$11.9 million. Ongoing municipal tax revenues that continue beyond 2032 would retire the remaining debt by 2038.

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 2039.

Further detail is available in Attachment 4.

Budget/Financial

Capital profiles or service packages for unfunded Community Revitalization Levy 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 Community Revitalization Levy revenues are sufficient.

Legal

A Community Revitalization Levy 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 Community Revitalization Levy area are repaid or recovered from the revenues; or an earlier date specified by the Province.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is attractive and compact			
Outcome(s)	Measure(s)	Result(s)	Target(s)

Catalyze Development and Community Transformation	Number of net new residential units in Community Revitalization Levy Areas	2019 Result: 21 2020 Result: 663	Increase over previous year
Catalyze Development and Community Transformation	Value of building permits issued in Community Revitalization Levy Areas	2019 Result: \$161 million 2020 Result: \$181 million	Increase over previous year

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

Others Reviewing this Report

- M. Persson, Deputy City Manager and Chief Financial Officer, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- B. Andriachuk, City Solicitor