

2021 Private Construction Projects- Economic Incentive Options - Five Year Timeline

Recommendation

That the January 25, 2021, Financial and Corporate Services report FCS00134rev, be received for information.

Previous Council/Committee Action

At the October 16, 2020, Executive Committee meeting, the following motion was passed:

That Administration prepare options for a program of economic incentives in the form of rebates or construction-period progressive/supplemental tax exemptions to support high-impact private construction projects commencing in the 2021 construction season, that might not proceed without incentive support, in the interests of supporting short term job creation and longer term City Plan goals, and provide a report to Committee.

At the January 18, 2021, Executive Committee meeting, the following motion was passed:

That the January 18, 2021, Financial and Corporate Services report FCS00134 be referred to Administration to further consider a five-year timeline for the program and gather industry feedback, based on the discussion at Committee and provide revised recommendations, and return to the January 25, 2021, City Council meeting.

Executive Summary

This report presents considerations for a program of economic incentives to stimulate high-impact private construction projects commencing in 2021. If Council wishes to proceed with an incentive program, Administration recommends a grant program for qualifying Centre City projects to support short-term job creation in the current economic conditions and longer term City Plan goals. The duration of the program is flexible, but the attached policy uses a five year time frame. Administration's original report FCS00134 for January 18's Executive Committee suggested a timeline of four years.

Report

Administration has taken several steps to respond to Executive Committee's direction for economic incentive options for high-impact private construction projects.

On November 10, 2020, Administration met with a group of developers to discuss possible incentives, their perception of what is "high-impact", and how the City could verify whether a program could affect a net development increase. A summary of that conversation is available in Attachment 1. Related to "high-impact" tax accounts, supplemental and progressive assessment mechanisms are outlined in Attachment 2.

Administration reviewed a list of major projects currently in the development approval process, sorted based on type, location and impact, and performed a high-level impact analysis if tax relief was provided. Administration also evaluated the cost impacts of options based on these inputs. A summary of options and considerations of how Council could choose to apply the different project criteria is included in Attachment 3.

Program Impact Analysis

In consideration of the information from industry engagement, Administration put together a list of projects that may potentially begin construction in 2021. To limit the scope to "high-impact" projects, the list only included projects with a minimum construction value of \$10 million, and which added 50 new housing units or more. Based on this list, Administration analyzed the possible cost of providing tax relief for two, four, five or 10 years in various geographic areas. Costs are based on the tax uplift that would be forgone if tax levels were effectively frozen at pre-construction levels. A full summary of the analysis is provided in Attachment 3.

If Council chooses to pursue an economic incentive, Administration would suggest a program restricted to the Centre City area. In the January 18, 2021 report FCS00134, a four year time frame was recommended given typical project timelines of two years to construct and two years to lease/rent a building.

As per the discussion with Executive Committee on January 18, 2021, Administration has provided considerations for a five year grant timeframe. This information, including the options considered, is included as Attachment 4. This revised grant timeline is consistent with some of the feedback from the development industry during and since that meeting regarding construction timelines and time needed to stabilize the project (i.e., rent/lease the space).

Focusing on the Centre City area would align with City Plan outcomes and phasing activation for the next million people, enable the program to best support and leverage

the critical mass in this district, and would also support downtown vibrancy and a COVID-19 recovery. The City Plan also identifies increasing Centre City population density as a key to supporting its long-term vibrancy as it is the principal employment and residential node, regional economic and activity hub and the urban and traditional meeting place and celebration space. The estimated costs to pursue an economic incentive program in the Centre City are \$22.9 million, for 10 identified projects that would possibly be eligible.

The high-level estimates assume all projects identified move forward in 2021, which is unlikely. The projects identified either have an approved development permit or have made an application for a development permit. It is possible that not all the identified projects will proceed regardless of their property tax status in future years. The cost to the City would be lost taxation growth revenue for the time period.

While the estimates assume every identified project initiates construction in 2021, a \$22.9 million cost would require a phased offsetting tax increase over a four-year period (2022-2025) of approximately 1.3 percent without other mitigating efforts. These estimates do not consider any administrative costs for the program. Expanding the program to five-years would increase the program's cost unless a funding cap was put in place. The attached policy is set to five years with a \$22.9 million funding cap. Projects would be evaluated on a first come, first served basis, provided they meet all program criteria. First come, first served would be determined by an approved development permit and a signed grant application.

Administration would not recommend funding the program through tax levy. As the purpose of the program is to support the economy and COVID-19 recovery, if Council decides to advance the program, a funding option is a portion of the COVID-19 funds appropriated in the Financial Stabilization Reserve during the Fall 2020 Supplementary Operating Budget Adjustment discussions. More information on tax levy impacts and growth are discussed in the Budget Considerations and Analysis section below.

Tax Tools and Possible Program Criteria

Tax relief can be provided in a variety of ways, each having strengths and weaknesses. Tax relief options considered include:

Tax Exemption: a tax exemption would make use of the new powers provided under Bill 7 (*Property Tax Incentives Amendment Act*) to exempt non-residential properties. This form of exemption would be by bylaw and would likely create the greatest amount of certainty for developers. Since the Bill 7 tool is limited to non-residential properties, and the properties under consideration are mostly residential or mixed-use development, this tool is less fitting. This type of tax

exemption may be more successful in a program designed to reduce high levels of office vacancy.

Tax Rebate: a tax rebate uses Council's powers to rebate taxes under section 347 of the *Municipal Government Act*. Tax rebates provide Council with the greatest flexibility but, as a result, the least predictability for developers. Tax rebates can apply to both residential and non-residential projects; however, Administration would need to return to Council with a list of properties seeking tax relief annually and Council could choose to approve or deny the relief at any time. A policy can be put in place to guide Council's decision-making, but Council is not bound by the policies it sets.

Grant Funding: grant funding is the third and most practical approach to meet the intent of this tax relief. A grant program could be developed whereby each applicant could enter into a grant funding agreement with the City. The grant payment would reduce the property owner's taxes to 2021 levels for five years. The funding agreement could include clauses that provide greater certainty to developers and Council would only need to approve the agreement once. Using a grant requires Council to identify a funding source. As outlined in the budget section below, Administration recommends the appropriated FSR could be used on a one-time basis.

A bylaw would be used for an exemption of non-residential property only, whereas a policy would be used in both the case of tax rebates and grant funding and could apply to both residential and non-residential projects (the policy would need to be adjusted depending on the approach). The policy in Attachment 5 would create a grant funding approach that applies to residential property.

Regardless of method, the program could include the following criteria:

- Available to new development projects with approved development and building permits that break ground in 2021.
- Project must have a construction value of \$10 million or more, and provide 50 or more housing units.
- Projects already underway would not qualify.
- Projects would be limited to those in the Centre City as identified within the accompanying procedure.
- Projects taking advantage of this program would not be eligible to participate in other City development incentive grant programs, including the Development Incentive Program, and the Brownfield Redevelopment Grant Program. These programs serve different though related purposes.
- Program applicants would need to declare financial need and certify that the program changed their decision to proceed with development.

Successful applicants would effectively receive no municipal tax increases for a period of five years (2022-2026). Municipal taxes would still apply, but a grant would offset the municipal taxes levied. Education taxes would not be offset under this program.

Projects that meet the location and impact criteria would be supported by the Client Liaison Unit in Development Services for any permitting requirements (i.e., Development Permit or Building Permit). This service provides a single point of contact, predictable and negotiated project timelines with a project management approach focused on outcomes for applicable projects that intend to advance development in 2021.

Administration has considered construction timelines, economic impact, public perception and financial risks in developing the possible program outlined above, but would require Council decision on whether or not to proceed.

If City Council wishes to provide an economic incentive program for “high impact” developments in 2021, Administration would recommend the following motion, revised from the suggested motion for a four year program in the January 18, 2021 report, FCS00134:

1. That the 2021 Edmonton Economic Recovery Construction Grant Incentive Policy C625, as outlined in Attachment 5 of the January 25, 2021, Financial and Corporate Services report FCS00134rev, be approved.
2. That tThe Edmonton Economic Recovery Construction Grant be funded through COVID-19 amounts set aside in the appropriated Financial Stabilization Reserve, for up to a maximum of \$22.9 million, with amounts to be released annually from the reserve starting in 2022 and ending in 2026, in an amount to fully offset the grant expense in each year (i.e. budget impact of tax relief).

Budget and Financial Implications

Each year, new construction, property upzoning, subdivisions and exemption changes affect the value of properties. These kinds of changes in value are labeled as “real growth” and are distinguished from market value changes. Market value changes, effectively how a property value changes due to market forces (supply and demand), do not affect City revenues. “Real growth”, however, does increase City revenues.

In a given budget year, the City accounts for all expenses and revenues in order to determine the needed property tax increase. Before applying a property tax increase, an estimate of “real growth” revenue is assumed in the base budget. Between 2016 and 2020, growth has accounted for an average revenue increase of \$32.5 million

annually. Effectively, this means growth revenue has offset the tax levy increase by about two percent per year. When growth revenue is forgone through a tax relief program, the gap between revenue and expenditures increases, causing a needed increase to the tax levy to sustain budgeted expenditures. In short, pre-allocating growth revenue requires a subsequent tax increase, ongoing expenditure cuts, or other funding (revenue sources).

Programs that pre-allocate growth revenue (such as CRLs) assume that the revenue from growth would not exist if not for the program. In this potential construction incentive program's case, the idea is incentivizing development that would not proceed without support. Unfortunately, it is difficult to prove that such incentive programs actually affect development outcomes. Growth is primarily driven by market conditions (supply and demand). It is difficult to incentivize a development based just on property taxes if market conditions would not sustain it in the long run.

If Council chooses to provide a tax relief program, Administration would recommend that the estimated cost to the City be funded through COVID-19 amounts appropriated in the Financial Stabilization Reserve, up to a maximum of \$22.9 million. Use of \$22.9 million of the appropriated COVID funds for this program would deplete most of the current COVID funds in the reserve, limiting Council's ability to respond to future COVID impacts, including but not limited to, provincial budget reductions and additional funding requirements for partners and vulnerable populations. The amount required from the appropriated Financial Stabilization Reserve may be lower based on actual development in Centre City projects starting in 2021, but this will not be known until construction projects begin.

Annually, from 2022 to 2026, amounts would be released from the appropriated Financial Stabilization Reserve to offset the cost of tax relief to the City, up to a maximum of \$22.9 million. The formal budget adjustment to release funds from the appropriated Financial Stabilization Reserves would be brought forward for Council's consideration during the Spring Supplementary Budget Adjustment report in each year once the final property tax growth figures are finalized.

Legal Implications

There are three legislative mechanisms that would allow economic incentives to offset taxation. First, Section 364.2 of the *Municipal Government Act* allows Council to pass a bylaw that provides for tax exemptions for non-residential property. This exemption can apply to future years. A bylaw under section 364.2 cannot apply to residential class properties. Second, a grant program could be set up to offset taxes associated with assessment uplift. Such a grant program would have to be funded through the budget process. Third, Section 347 allows Council to cancel or refund an existing tax.

While this can apply to both residential and non-residential class properties, the cancellation can only be done once the tax is charged and this is therefore a yearly process.

Attachment 5 is a draft Council policy that would allow the implementation of a grant program to offset tax based on assessment uplift. Attachment 6 is a sample program guide for interested developers.

Public Engagement

Administration met with 22 developers on November 10, 2020, and provided additional opportunities for informal feedback regarding the structure of the possible grant program.

Corporate Outcome(s): The City of Edmonton’s resilient financial position enables both current and long-term service delivery and growth.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Ensuring Transparent and Reasonable Tax Policy	Growth revenue above 5-year average of \$32,000,000.	TBD	Growth revenue is above 5-year average of \$32,000,000

Attachments

1. Stakeholder Feedback
2. Progressive Versus Supplemental Assessments
3. Options Summary
4. Report Addendum (January 25, 2021)
5. 2021 Edmonton Economic Recovery Construction Grant Incentive Policy
6. 2021 Edmonton Economic Incentive Construction Grant Program Guide

Others Reviewing this Report

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor