City of Regina

City of Regina Servicing Agreement Fee, Development Levy and Intensification Levy Annual Rate Review

Date	October 7, 2020
To	Executive Committee
From	City Planning & Community Development
Service Area	Office of Executive Director (City Planning & Community Development)
Item No.	EX20-28

RECOMMENDATION

Executive Committee recommends that City Council:

1. Set the 2021 Greenfield Servicing Agreement Fee and Development Levy Rates at $299,000 per hectare for residential and commercial greenfield development and $99,670 per hectare for industrial-zoned greenfield development and approved effective January 1, 2021.

2. Maintain the 2021 Intensification Levy Rates unchanged effective January 1, 2021:

Table 1: Intensification Levy Rate by Land Use Type

LAND USE TYPE	RATE
Residential Unit Types (rate charged per unit)	
Secondary Suite	$4,200
Single-Detached Dwelling	$8,700
Semi-Detached Dwelling or Duplex	$8,400
More than Two Dwelling Units (e.g. townhouse, triplex, etc.)	$8,100
Apartment (less than two bedrooms)	$4,200
Apartment (two or more bedrooms)	$6,100
Office/Commercial/Institutional (rate charged per m^2)	$90
Industrial (rate charged per m^2)	$40

3. Direct the City Solicitor to prepare the necessary bylaw amendment to *The Development Levy Bylaw No. 2011-16*.

4. Approve these recommendations and consider the proposed bylaw at its October 28, 2020 meeting, following the required public notice.

ISSUE

The City uses Servicing Agreement Fees and Development Levies (SAF/DL) and Intensification Levies (IL) to fund major infrastructure required for new growth and development for servicing a population of 300,000, as per *The Planning and Development Act, 2007* (Act) and described in the *Administration and Calculation of Servicing Agreement Fee and Development Levy Policy* (Policy).

SAF/DL and IL rates are reviewed and set annually to apply the most current information to the calculations. A 2021 greenfield SAF/DL rate of $361,000 per hectare was approved by City Council in November 2019 (Report CR19-96), with a commitment that a new 2021 rate would be brought forward if the calculated rate varied by more than five per cent from the approved rate. The new proposed 2021 greenfield SAF/DL rate of $299,000 per hectare is a decrease of 17.2 per cent from the currently Council-approved rate.

IMPACTS

<u>Financial Impact</u>
Establishing SAF/DL and IL rates is an annual process that manages cash flow for the delivery of growth-related infrastructure funded through servicing agreement fees, development levies, and intensification levies.

It is expected that the SAF Reserve Fund will be in a deficit position by 2022. However, the model when created and approved by Council in 2015, had taken into account a $50 million deficit. This will be caused by lower-than-average revenue from land development and a need to complete projects in preparation for growth; in particular, the Eastern Pressure Solution which is required to restore level of service for the water distribution system. The SAF Reserve Fund deficit is predicted to be between $30 million and $50 million for 15 years and return to a zero balance at the end of the model in the current 21-year term. There are risks to carrying a deficit.

- Future SAF fees may not recover this deficit if growth slows or stops. There is some risk that taxpayers may bear this cost in the future; however, this is considered a low risk as it is not anticipated growth will stagnate indefinitely.
- The intent of the $50 million limit was to strike a balance between these risks and the fact that it is difficult to deliver growth projects without some SAF Reserve deficit.
- To carry a deficit, the City may need to finance SAF projects by taking on debt, with Council approval. The cost of borrowing this debt is calculated in the SAF model and applied to the SAF annual rate. However, increased debt-financing has the potential to reduce investment returns and increase the need to debt-finance other City projects. The City's debt limit is $450 million and there are several potential future projects that, if approved, will likely need to be funded by debt. These projects will

need to be prioritized.

Anticipated revenue and expenditures are balanced over the life of the SAF financial model. The annual review of the model and projects within it provide the opportunity for updates with the most current information and adjust as necessary due to any change in the pace of growth or economic conditions. This review process will see the rate lower and raise based on the review and factors which attribute to it.

Policy/Strategic Impact
The review of rates is in accordance with Section 4.13 Servicing Agreement Fee Rate and Development Levy Review in both the Policy and *The Development Levy Bylaw No. 2011-16* Schedule B*:*

- Proposed Servicing Agreement Fee and Development Levy rates are presented from time to time to Council for approval:
    - The Servicing Agreement Fee and Development Levy Rate Review will include:
        - Consultation with development industry members;
        - Review of the current Servicing Agreement Fee balance and interest due;
        - Determination of pace of development for the purpose of establishing the Capital Projects list and developable area;
        - Current population, and population projections for the purpose of calculating appropriate funding splits for new projects added to the list;
        - Review of intensification development Capital Projects for the purpose of calculating the Intensification Levy rate;
        - Review of greenfield development Capital Projects for the purpose of calculating the greenfield rate;
        - Review of city-wide development Capital Projects for the purpose of calculating both the greenfield and intensification levy rates;
        - Adjustment, addition, and removal of Capital Projects over the 25-year time horizon;
        - Indexing for inflation.

The purpose of the Policy is to provide for the administration and calculation of Servicing Agreement Fees and Development Levies in accordance with policy 1.16 of *Design Regina: The Official Community Plan Bylaw 2013-48* in Section B Financial Policies Goal 4 – Revenue Sources:

- 1.16 *Ensure that growth pays for growth by*
    - *1.16.1 Ensuring Servicing Agreement Fees charges are based on full capital cost;*
    - *1.16.2 Regularly reviewing the rate and rate structure for Service Agreement Fees;*
    - *1.16.3 Reviewing the areas to which Service Agreement Fees apply, including the possibility of fees varying with location, density and use as necessary, except where specific and deliberate subsidies are approved to support public benefits;*

- *1.16.4 Aligning the City's development fees, property taxes and other charges with the policy and intent of this Plan;*
- *1.16.5 Achieving balance of employment and residential lands*

OTHER OPTIONS

Based on the annual review and resulting revisions to the growth-related capital project list, the proposed 2021 rate has been calculated in accordance with the Act and Council approved policy and direction. An alternative option is for Council to direct the Administration to reconsider some or all of the updates made to the model.

COMMUNICATIONS

Recommendations within this report as well as planned City Council dates were provided to stakeholders in advance. Stakeholders were also identified as interested parties in the report process.

Stakeholders and other interested parties will receive a copy of the report and notification of the meeting to appear as a delegation in addition to receiving a written notification of City Council's decision. The rates will also be posted on Regina.ca.

DISCUSSION

Growth of a city can offer benefits such as supporting and attracting local business, creating population thresholds necessary to support arts and culture, promoting community vibrancy and fostering the development of services such as transit and recreation.

Growth requires an investment in services and infrastructure. New neighborhoods and employment areas require expanded or new infrastructure for services such as water and wastewater. The Policy assigns developers responsible for capital requirements internal to or triggered directly by new developments, while SAF/DL and IL are used to fund infrastructure upgrades to the city systems due to overall growth of the city.

The City's primary tools to fund these system upgrades are SAFs in new subdivisions, DL in areas where no subdivision is occurring but a change in intensity of land use is taking place, and IL within established areas where there is an intensification of use generating an increase in demand for services. The Policy, guided by the Act, and approved by City Council outlines the calculation of these fees. The Act allows for the following categories of growth-related capital projects to be eligible for SAF/DL and IL funding:

- Roads and transportation infrastructure;
- Utility infrastructure, including water, wastewater and stormwater (drainage); and
- Parks and recreation infrastructure.

These projects cannot include costs associated with operations, maintenance or renewal of infrastructure, nor can they be used for other growth-related costs, such as those for police, transit, landfill, libraries or firehalls.

Annual Review Process

The SAF/DL and IL rates are determined annually as part of the update to the SAF financial model. This includes updating growth projections (both in the amount of greenfield land remaining to be developed, and infill rates) and the growth-related capital project list (Appendix A). The growth-related capital project list is based on master plans and further studies, outlining projects required to service growth to 300,000 people as per *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP).

The project list was reviewed by Administration and development industry stakeholders through a combination of communications, meetings and workshops. Feedback from the Regina and Region Home Builders' Association (Appendix B) indicated general support for the recommendation.

The SAF model is fixed to a population of 300,000 which means the current term of the model is 21 years. A five-year review of the SAF Policy is in progress.

Greenfield SAF/DL Rate Review

The proposed 2021 greenfield SAF/DL rate of $299,000 is a decrease of 17.2 per cent from the 2020 rate of $361,000. Much of this decrease is due to a comprehensive review of transportation projects in response to concerns raised last year by the development industry regarding the assumptions used to identify the projects and estimate project costs. Further changes may be applied next year as a result of reviews of the Transportation Master Plan and impact of the Bypass on traffic patterns.

A percentage reduction in the cost estimate was applied to the proportionate benefit of any project that accrued beyond the 300,000-population growth horizon as this growth horizon should only pay their share of the project costs. As well, committed and expected senior government funding was incorporated into project estimates where appropriate, ie. Buffalo Pound Upgrades.

Intensification Levy Rate Review

The proposed 2021 IL rates are to remain the same as the 2020 IL rates. The underlying principles for calculating the IL rate are the same as the greenfield SAF/DL rate. The cost of capital projects applies in three ways:

1. Fully attributed to greenfield growth;
2. Fully attributed to existing infrastructure (ie. infill/intensification); or
3. A proportionate share of greenfield and existing infrastructure.

Despite a review of all project and administrative costs, and a decrease in the proposed 2021 greenfield SAF/DL rate, the impact to the IL rate was negligible. In particular, the cost of one project - wastewater linear capacity upgrades - was applied only to the intensification levy which offset decreases in other projects and administrative costs.

DECISION HISTORY

In November 2019, City Council (Report CR19-96) approved the 2021 Greenfield Servicing Agreement Fee and Development Levy Rate of $361,000 per hectare with the recognition that new rates would be brought forward for Council approval if the calculated rate varied by more than five per cent. The newly calculated rate of $299,000 is a decrease of 17.2 per cent.

The 2021 Intensification Levy Rates were also approved at the November 2019 meeting of Council (Report CR19-96), with the recognition that new rates would be brought forward for Council approval if the calculated rate varied by more than five per cent. The newly calculated rate for 2021 varied negligibly from the Council-approved rate, so no change is recommended at this time.

The recommendations in this report require City Council approval.

Respectfully submitted,

Michelle Forman, Manager, Integration & Stakeholder Relationships 9/24/2020

Respectfully submitted,

Diana Hawryluk, Executive Director, City Planning & Community Dev. 10/1/2020

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ATTACHMENTS

Appendix A: Growth-Related Capital Project List
Appendix B: RRHBA Ltr to City Council on 2021 SAF Rate Recommendation