EX17-36

November 15, 2017

To: Members
Executive Committee

Re: Industrial development Servicing Agreement Fee/Development Levy Policy

RECOMMENDATION

1. That Appendix A of the *Administration and Calculation of Servicing Agreement Fee and Development Levy Policy* be in effect immediately, upon approval by City Council.

2. That the City Solicitor be directed to prepare the necessary bylaw to amend the *Development Levy Bylaw*, in accordance with the approved *Administration and Calculation of Servicing Agreement Fee and Development Levy Policy* and the approved *Administration of Servicing Agreement and Development Levy Agreement Policy*.

3. That the 2018 Servicing Agreement Fee rate be set at $442,000 per hectare itemized as follows, be effective January 1, 2018:

Transportation	Water	Wastewater	Drainage	Parks/Rec	Admin
$220,600	$111,300	$42,600	$1,500	$20,800	$45,200

4. That item CM15-14 be removed from the list of outstanding items for City Council.

5. That this report be forwarded to the November 27, 2017 City Council meeting for approval.

CONCLUSION

The City of Regina (City) uses Servicing Agreement Fees (SAFs) and Development Levies (DLs) to fund major infrastructure investments required for new growth and development, as per the *Planning and Development Act, 2007* (Act).

Since the SAF/DL policies were adopted in December of 2015, City Administration has undertaken research regarding the barriers to Industrial Development within the city. One of the key themes City Administration heard from stakeholders was that the SAFs/DLs are cost prohibitive with respect to Industrial Development. City Administration recommends an amendment to the SAF/DL Policy that would reduce the SAFs/DLs paid on Industrial zoned lands to 1/3 of the SAF/DL rate. This recommendation is consistent with City Administration's analysis, which demonstrates that Industrial Development typically puts a lower demand on City services on a land area basis than Residential or Commercial Development.

A reduction in the rates paid by industrial zoned land does result in a higher SAF/DL rate for other types of development; however, City Administration has been able to offset the higher rate by making the assumption that one additional year of development can be serviced at the end of the growth horizon without the addition of new projects to the model. This results in a lower calculated SAF rate for 2018 than was pre-approved by City Council in 2015.

Another barrier to Industrial Development is requiring a full array of City services. In response to this barrier, City Administration is proposing an amendment to the SAF/DL Policy whereby the SAF/DL could be reduced by the water and/or wastewater portion of the rate if the development is approved by the City without the need to access either of those two City services.

The recommended approach for the Industrial SAF/DL Policy considers the cost of growth along with overall City financing, the goals aligned with *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP) and the associated community priorities, especially those related to achieving long-term financial viability and foster economic prosperity.

BACKGROUND

On December 14, 2015, City Council considered CM15-14 SAF and DL Policy Review and Final Phasing and Financing Project. At this meeting, City Council passed a motion that:

> "City Administration undertake research in 2016 to better understand the factors that influence industrial development in Regina, which will help inform the need to consider an industrial land development policy and that a report be brought forward to City Council in 2017".

This report addresses this motion.

DISCUSSION

Growth provides many benefits including support for local businesses, the population threshold necessary to support arts and culture, promotes community vibrancy and supports services such as efficient public transit.

Growth also requires a significant investment in services and infrastructure. Developers are responsible for the capital requirements internal to new developments (e.g. roads, sidewalks, parks and underground infrastructure). Growth also generates the need for expanded or new offsite infrastructure required to support new communities and employment areas, such as water and wastewater services.

The City's primary tools to fund these infrastructure upgrades are SAFs in new subdivisions and DLs in areas where no new subdivision is occurring, but a change in intensity of land use is taking place generating an increase in demand for services. SAFs are collected in accordance with Section 172 of the Act, which states:

> "SAFs may provide for the payment by the applicant of fees that City Council may establish as payment in whole or in part for the capital cost of providing, altering, expanding or upgrading sewage, water, drainage and other utility services, public highway facilities, or park and recreation facilities located within or outside the proposed subdivision and that directly or indirectly serve the proposed subdivision (172)(3)(b)".

Currently, the City has a uniform Greenfield SAF rate. Residential, commercial and industrial subdivisions pay the same rate per hectare regardless of the amount of demand they place on services and infrastructure. Uniform rates provide many benefits. These include:

- The City and developers are familiar with this approach.
- The calculation method is straight forward with few variables and easy to explain.
- A uniform charge yields a consistent charge regardless of use creating predictability for the City.
- Changes in uses set out in secondary and concept plans do not impact charges.

Uniform charges also have their drawbacks, including:

- The inability to differentiate between different demands generated by different land uses.
- The inability to differentiate between different densities of development.
- The inability to incentivise certain forms of development and land uses over others.
- They can be perceived as unfair to uses that generate lower demands.
- The inability to charge on the bases of units or floor area.

For these limitations, most cities surveyed maintained different rates for residential, commercial, and industrial land uses. In most instances, the industrial SAF rate was lower than residential rates. Lower industrial SAF rates reflect that industrial uses, on average, create less demand on services. Lower industrial rates were also seen as an effective tool to incentivise employment land development, which would result in increased tax revenue for the municipality.

Benefits of a lower industrial SAF

Industrial lands contribute to the municipal tax base and support well-paying jobs. This can spur population growth, residential development and overall economic growth. Until recently, employment in the goods producing sector of the economy was expanding. Between 2010 and 2014 the percentage of the employed labour force engaged in activities related to the goods producing sector increased by 29 per cent, while employment in transportation and warehousing, traditionally situated on employment lands, expanded by 44 per cent. This growth trend has reversed in recent years.

Between 2014 and 2016, employment in the goods producing sector decreased by 12 per cent, while employment in transportation and warehousing has declined by eight per cent. This can be attributed to a general economic downturn across resource based economies in western Canada.

The City can help create more predictability in industrial employment by promoting the development of employment lands and industrial diversification. One way to do this is by adjusting SAFs to more accurately reflect the demand on services created by industrial development. Lower SAFs will make the economics of employment land development and land use more favourable. Lower rates will also bridge the gap between serviced land prices for industrial land as compared to residential and commercial land values. This will make the city more competitive in attracting economic development on both a national and regional scale.

Comparison - Other Cities

Rural Municipalities:
Currently, SAFs in the city are relatively high when compared against neighbouring jurisdictions and other regional and national centres. For instance, in the surrounding Rural Municipality (RM) of Sherwood No. 159, SAFs are approximately $64,700 per hectare, or 84 per cent below City rates. In the RM of Edenwold, developers are subject to only a flat rate of $4,000 per lot or $8,000 per lot in a multi-lot industrial subdivision, regardless of the size of lot.

Such low rates place the City at a distinct disadvantage when competing for industrial land development. It also impacts city landowners when trying to attract end users for employment lands. The higher SAF rates translate into higher land prices, as well as lease rates that are necessary to recoup capital investments required to bring land to market. SAF-induced price increases can encourage growth to locate outside Regina, elsewhere in the Census Metropolitan Area (CMA) and negatively impact industrial development and job creation. This has the potential to impact residential development through higher fees and homeowners through higher taxes if the industrial tax base becomes eroded or fails to keep pace with residential growth.

Although, the RMs are a source of competition, the comparison of rates does not capture the benefits, or premium of locating in the city. The City offers a full range of urban services that the RMs are unable to provide. These services must then be provided privately by land developers and users. A more appropriate comparison is with other urban municipalities where development cost charges can range widely.

Other Urban Centres:
The average industrial SAF of cities surveyed is approximately $240,000 per hectare. Regina’s 2017 SAF rate of $415,000 per hectare is 42 per cent higher than the average rate.

Due to the competitive nature of urban land markets and the fact that capital is highly mobile, many urban centres have chosen to incentivise employment land development by either setting their industrial SAFs lower than residential and commercial SAFs, rebating all or a portion of the industrial SAF, or temporarily reducing industrial SAFs to achieve policy goals of attracting or retaining economic development. The rationale for this is that employment land development generates jobs, which spur other sectors of the economy, including residential development, through the multiplier effect.

While some cities with lower industrial rates describe the lower rate as a subsidy or grant, others have shown that lower industrial rates are in fact more equitable. Urban Systems (our consultants for our recent SAF review) in their comparative analysis of Canadian development charges notes that setting separate rates for different land uses allows cities to more accurately determine development charges based on actual impacts of the development associated with each land use format.

Rationale for a reduced Industrial SAF in Regina:
Empirical evidence demonstrates that industrial land use can create less demand for services. For instance, based on analysis of water bills for industrial development in and around the city, water consumption varied between four per cent and 60 per cent of the city's per capita water consumption on an equivalent land area basis.

As such, establishing industrial SAFs that are lower than residential and commercial rates will not only increase the city's competitiveness and encourage employment land development, it will also be more equitable and will more closely reflect differences in servicing requirements and the costs of growth.

Analyses of the fiscal costs and benefits of industrial growth in other jurisdictions have also found that industrial land development provides a net fiscal benefit to cities. In 2006, Red Deer County in Alberta worked with the Miistakis Institute at the University of Calgary to prepare a Cost of Community Services (COCS) Study. The Study found that industrial land was a subsidiser of other land uses. Similarly, growth forecasts prepared for the Halton Region in 2013 found that industrial developments have an annual net positive fiscal impact. This is consistent with COCS studies prepared elsewhere in North America that have found that employment lands generate a net fiscal benefit.

Stakeholder Consultation

Incentives are only effective when they make a material difference in the economics of land development from the perspective of land developers and businesses. City Administration has consulted with stakeholders involved in industrial land development in the city. Stakeholder engagement included meetings with individual ownership groups in August and September of 2017. Insights gleaned from these interviews informed the recommended approach to industrial SAFs. The draft plan was shared with all stakeholders at the September 21, 2017 meeting at City Hall.

The initial consultation aimed at getting a better understanding of the local industrial land market and obstacles to industrial development in the city. Stakeholders were provided a set of questions in advance of scheduled meetings. Questions addressed:

- The supply, location and appropriateness of employment lands in the city.
- Industrial land and industrial lease rates relative to other cities.
- The type (e.g. form and function) of industrial uses the City should be trying to attract.
- The impact of other opportunities in the region on development plans.
- The impact of existing land use policies and development standards on development plans.
- Any other factors respondents felt influenced the city's attractiveness to investment.

SAFs along with inflexible service standards were identified as two key obstacles to employment land development. Developers indicated a clear preference to develop in Regina, as opposed to locations outside the city because the City offers greater assurance and consistency of servicing necessary for the high-quality developments envisioned by these land owners; however, developers expressed the need for development to be economical to be profitable and competitive.

High SAFs in the city were seen as contributing to higher serviced land prices and lease rates for end users relative to development in surrounding jurisdictions. High SAFs were also cited as a factor that contributed to concentrate land ownership and limit competition in the industrial land market by shutting out smaller scale developers. Some respondents believed this led to high land and lease rates, as well as reduced options for end users of industrial land.

Stakeholders noted that other industrial development options in the region afford greater flexibility than the City due to limited development standards, though at the expense of access to necessary municipal services. Developers suggested that because the preference is to locate in the city where full services were available, the region as a whole, may be losing out on industrial development due to high SAFs in the city.

To mitigate these two barriers, the proposed SAF/DL Policy reduces the rate that Industrial zoned land would pay and allows for situations wherein a development does not require access to City water or wastewater service. The recommended approach to industrial SAFs addresses the two key barriers to industrial development in the city - high industrial SAFs that are disproportionate to the demand, while introducing options for flexibility in servicing options in areas that are difficult to service or may not require a full array of City services.

RECOMMENDATION IMPLICATIONS

Financial Implications

There are no direct costs associated with the recommendation. The City will continue to generate revenue through the collection of SAFs to fund the projects that are identified in the City's SAF model. Rather than collect SAFs through a uniform rate, the SAFs for residential and commercial development will be higher than the SAFs collected from industrial development. The impact of the recommended lower SAF rates has been tested. The amount of revenue expected remains consistent with the anticipated expenditures over the life of the SAF model.

A more competitive SAF rate for Industrial Development should make the Regina more competitive for Industrial Development on a regional, national and global scale. If this Policy attracts investment to the city, an increase in the tax revenue received from employment lands is expected.

Environmental Implications

None with respect to this report.

Policy and/or Strategic Implications

The proposed policy is consistent with many OCP policy directions including:

Section B - Financial Policies

- Provide infrastructure that meets expected growth and service levels, in accordance with financial resources and capabilities (Policy 1.5).
- Reviewing the areas to which [SAFs] apply, including the possibility of fees varying with location, *density*, and use (Policy 1.16.3).
- Achieving a balance of employment and residential lands (Policy 1.16.5).

Section D5 - Land Use and Built Environment

- Ensure an adequate supply of serviced industrial land to maintain a diverse range of development opportunities (Policy 7.21).

Section D10 - Economic Development

- Ensure an orderly regulatory environment within which business and industry can operate assured of transparency, predictability, and fairness in their dealings with the City (Policy 12.1).
- Establish and implement mechanisms to expand and diversify the economy, promote the attractiveness of Regina and the region as a place to invest, do business, and visit (Policy 12.5).

Other Implications

None with respect to this report.

Accessibility Implications

None with respect to this report.

COMMUNICATIONS

On September 19, 2017, City Administration hosted a meeting with stakeholders who are most affected by the proposed policy changes. City Administration considered the feedback from the stakeholders and made minor adjustments to the proposed policy. City Administration provided written follow-up communication with the stakeholders and advised them of the date of the Committee Meeting where this report will be considered.

DELEGATED AUTHORITY

The recommendations contained in this report require City Council approval.

Respectfully submitted,

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